

CALIFORNIA BUDGET PROJECT

Education Finance in California:

Why State Revenues Matter for Schools

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Outline

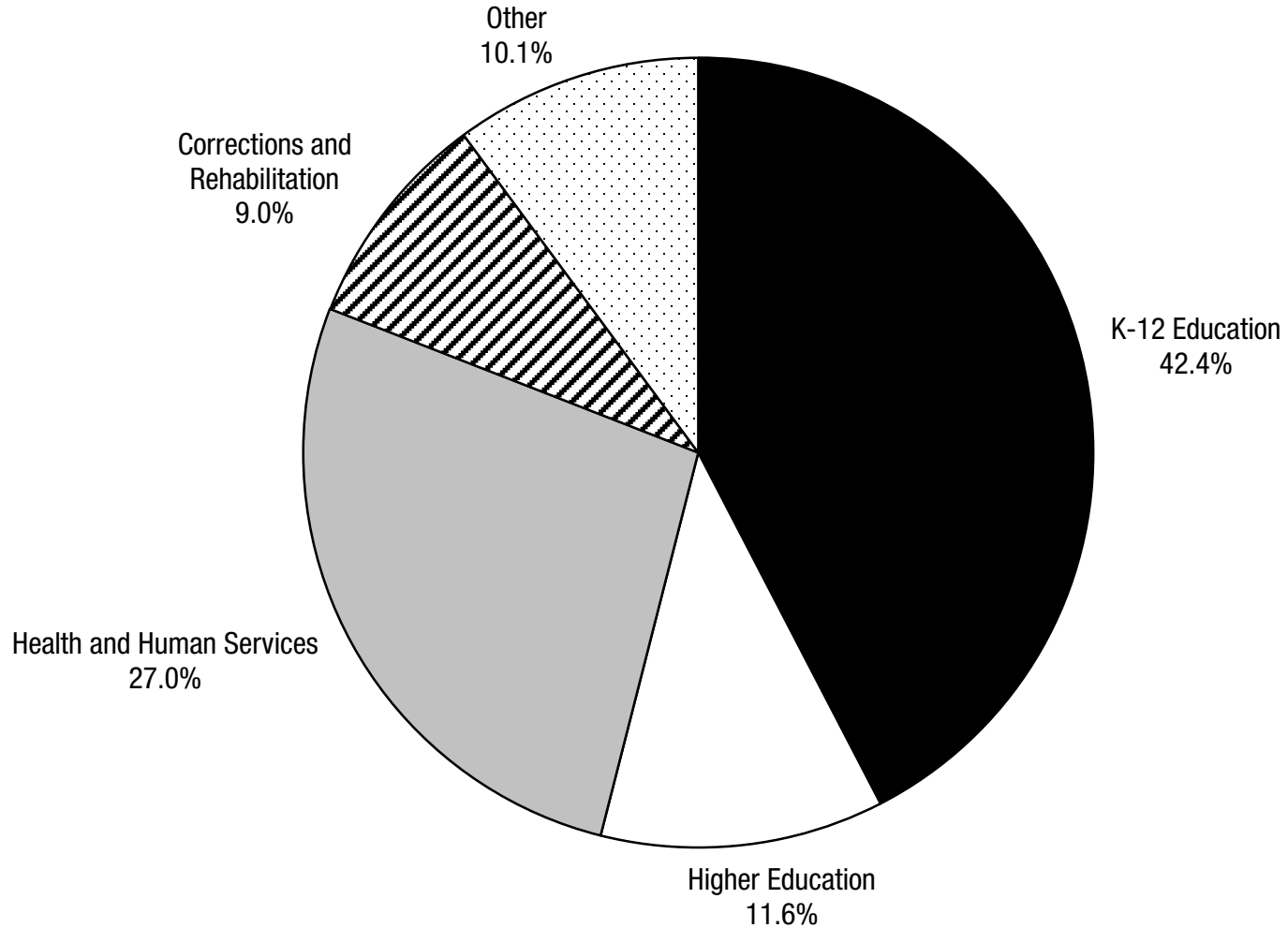
- Our State Budget: The Big Picture
- How Do California's Schools Receive Their Funding?
- Why Do State Revenues Matter for Schools?
- Q&A/Discussion

Our State Budget: The Big Picture

A Quick Quiz

- How much would you say you know about how your state and local governments spend and raise money – a lot, some, very little, or nothing?
- Which of the following represents the largest share of spending in the state budget?
 - Health and human services
 - Prisons and corrections
 - K-12 public education
 - Higher education

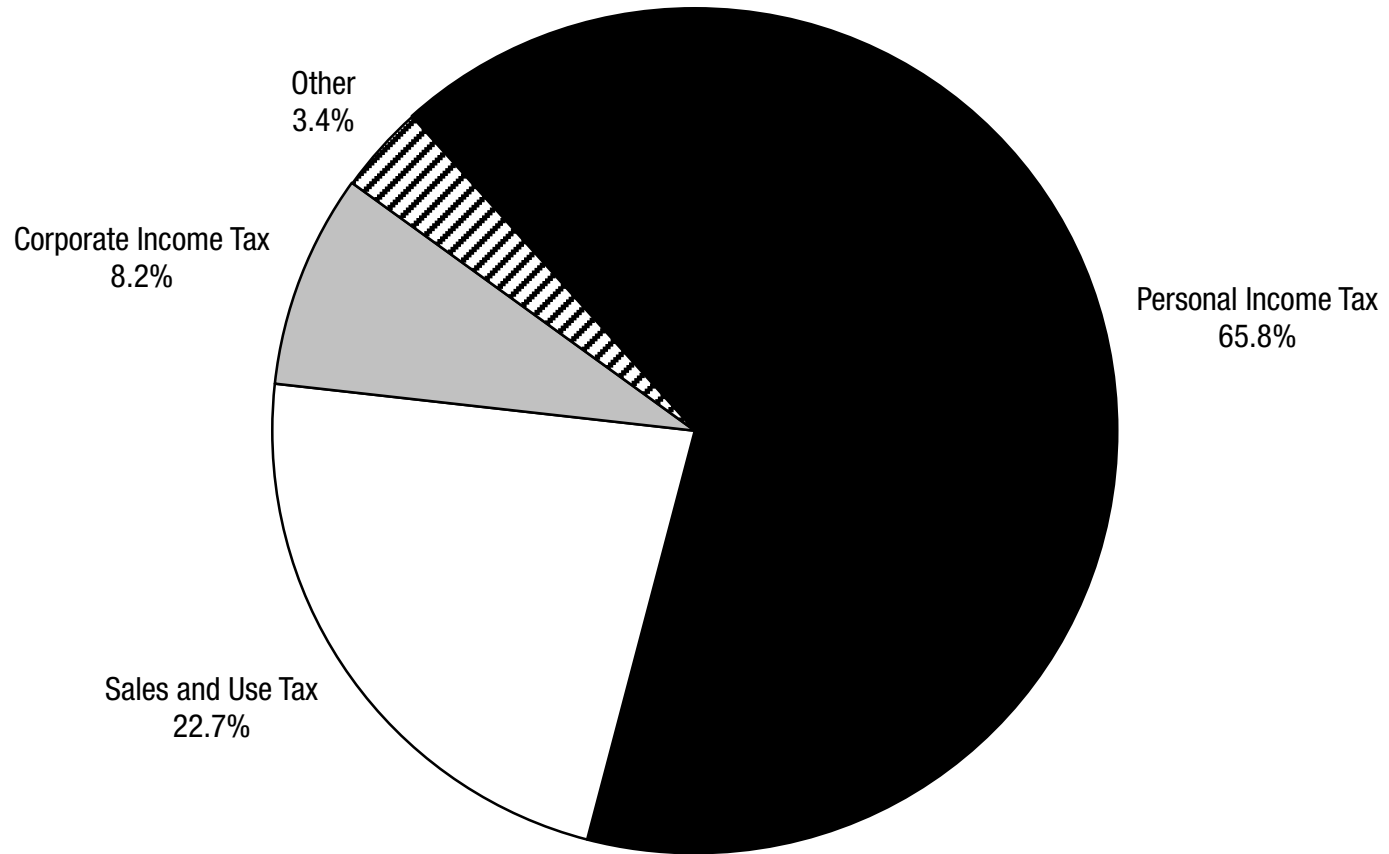
More Than Four in Five State General Fund Dollars Support Education or Health and Human Services



Proposed 2014-15 General Fund Expenditures = \$106.8 Billion

Note: Percentages do not sum to 100 due to rounding.
Source: Department of Finance

The Personal Income Tax Is Projected to Account for Nearly Two-Thirds of General Fund Revenues in 2014-15

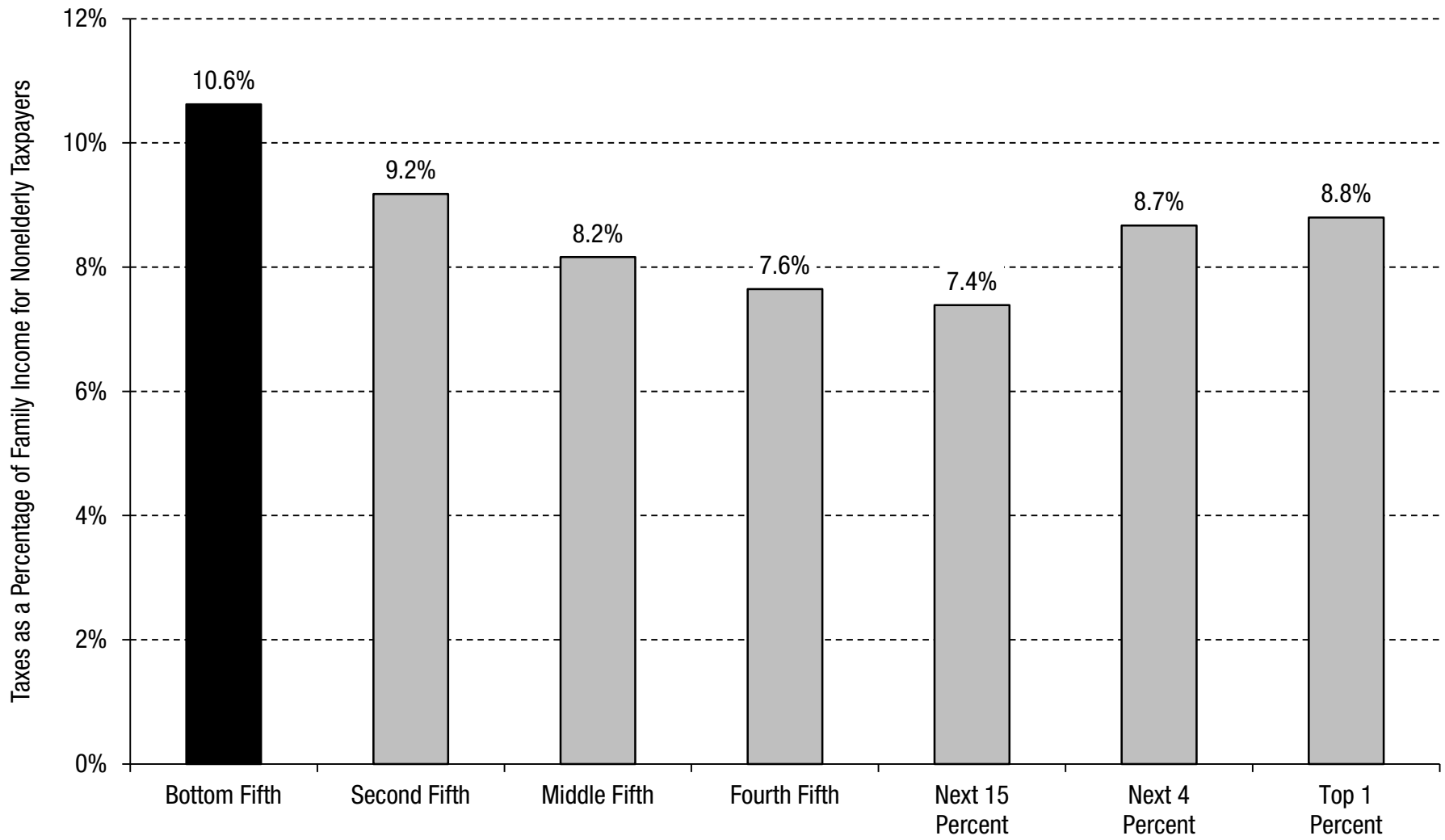


Projected 2014-15 General Fund Revenues = \$106.1 Billion

Note: Reflects total projected General Fund revenues, including \$1.6 billion that the Governor proposes to transfer to the state's rainy day fund in 2014-15. Percentages do not sum to 100 due to rounding.

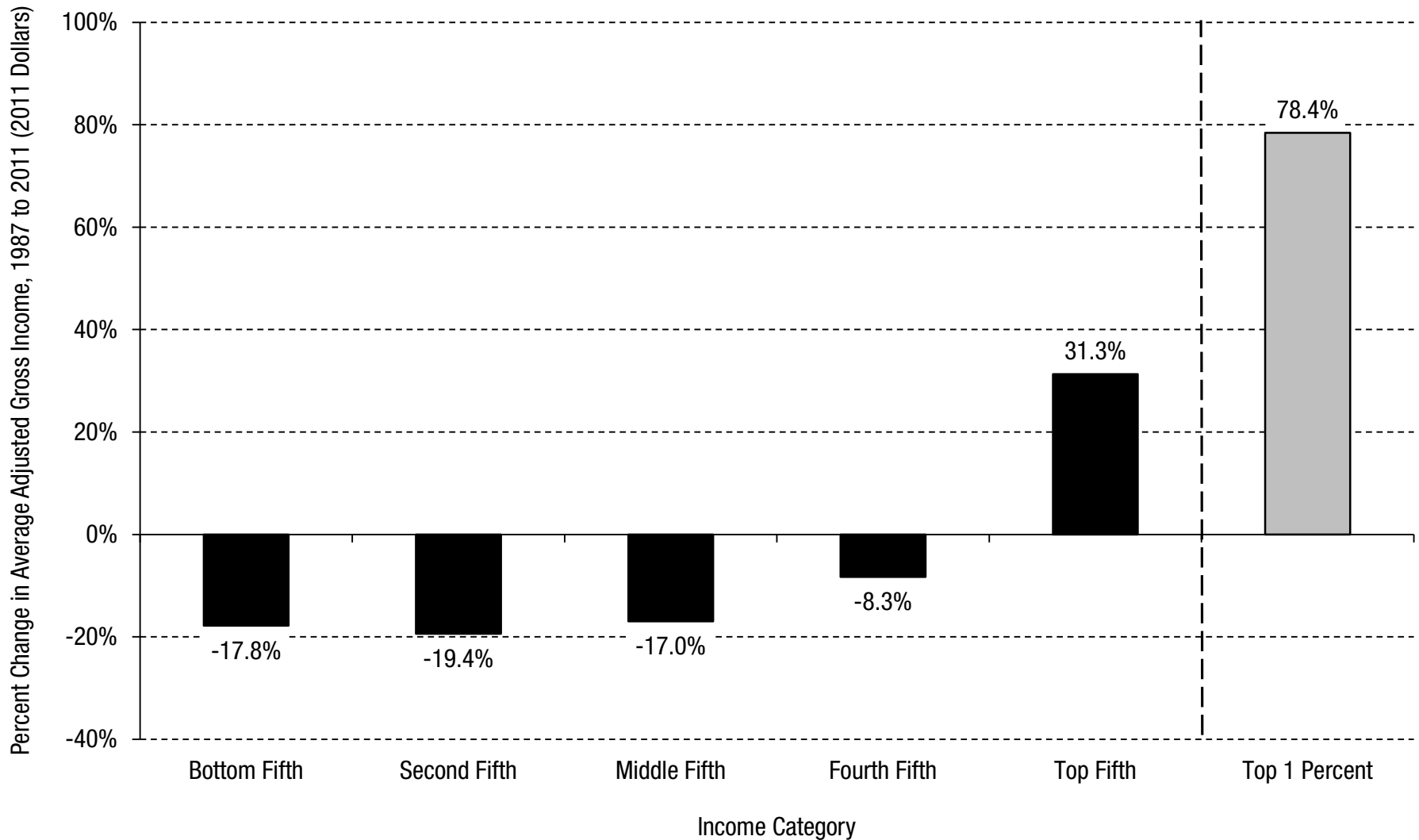
Source: Department of Finance

Even With Proposition 30's Tax Rate Increases, California's Lowest-Income Families Pay the Largest Share of Their Incomes in State and Local Taxes

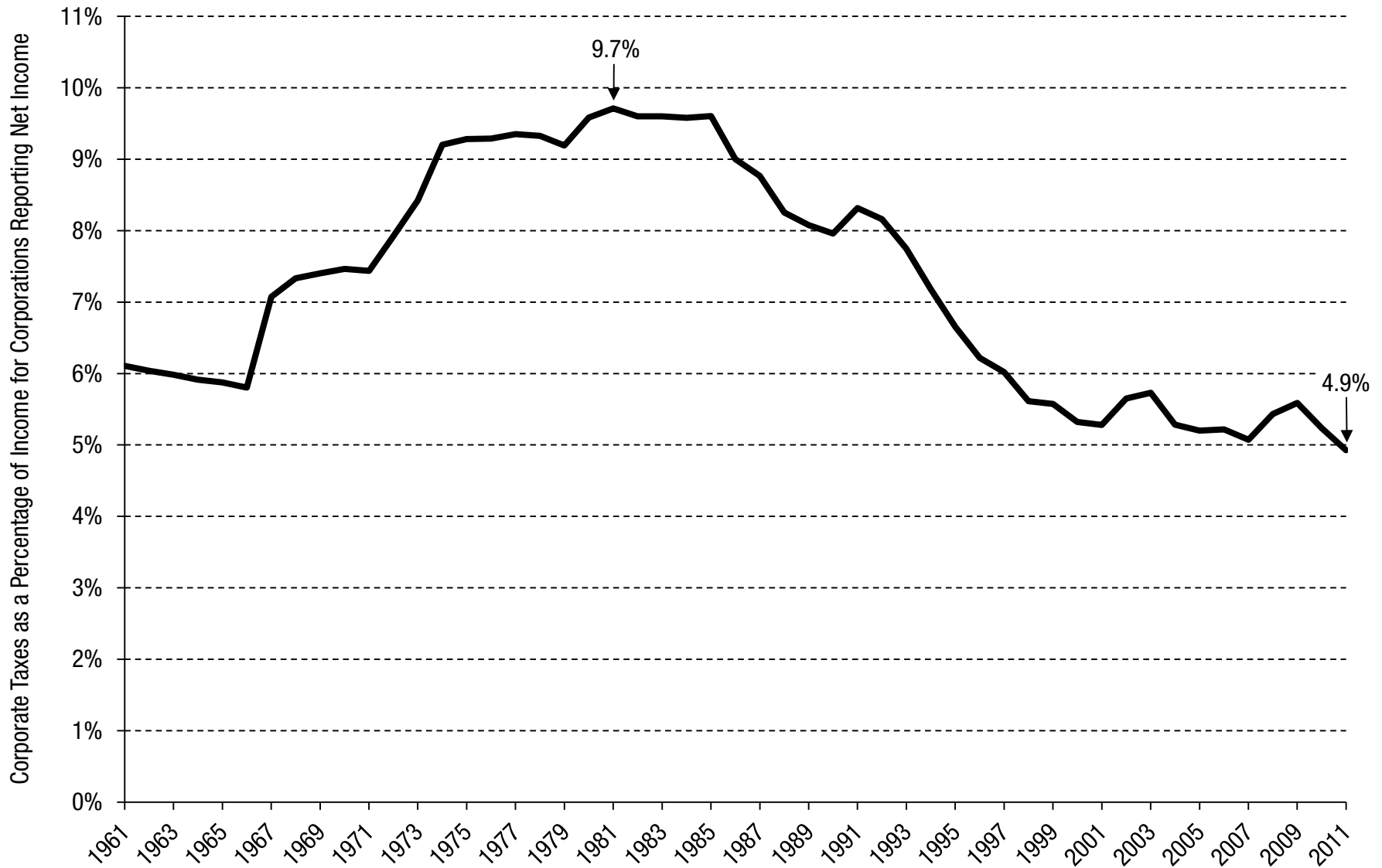


Note: Includes impact of Proposition 30 temporary tax rates and offset for federal deductibility of state taxes.
Source: Institute on Taxation and Economic Policy

The Average Income of the Wealthy Increased Significantly Between 1987 and 2011, While Declining Among All Other Californians

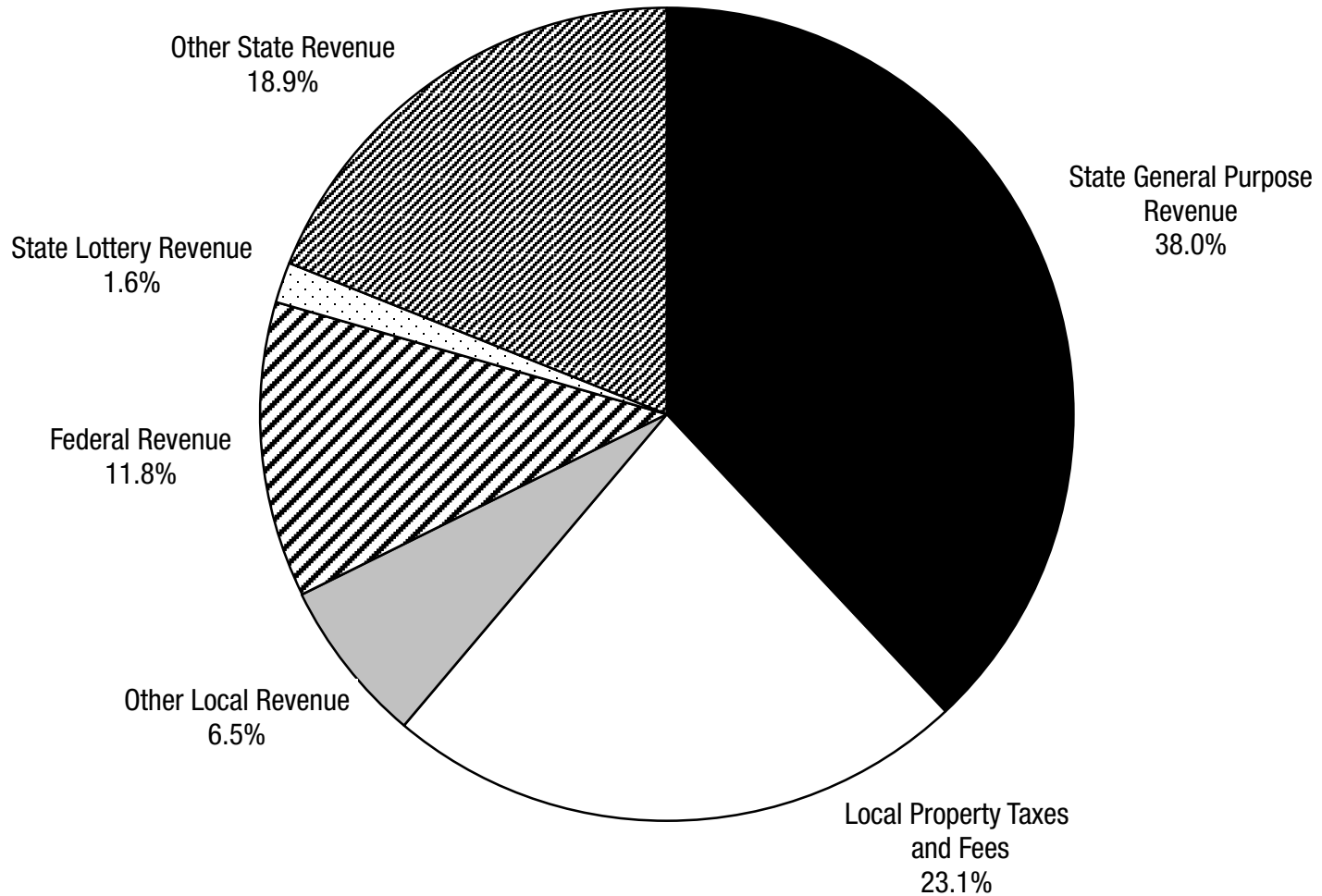


The Share of Corporate Income Paid in Taxes Fell by Half Between 1981 and 2011



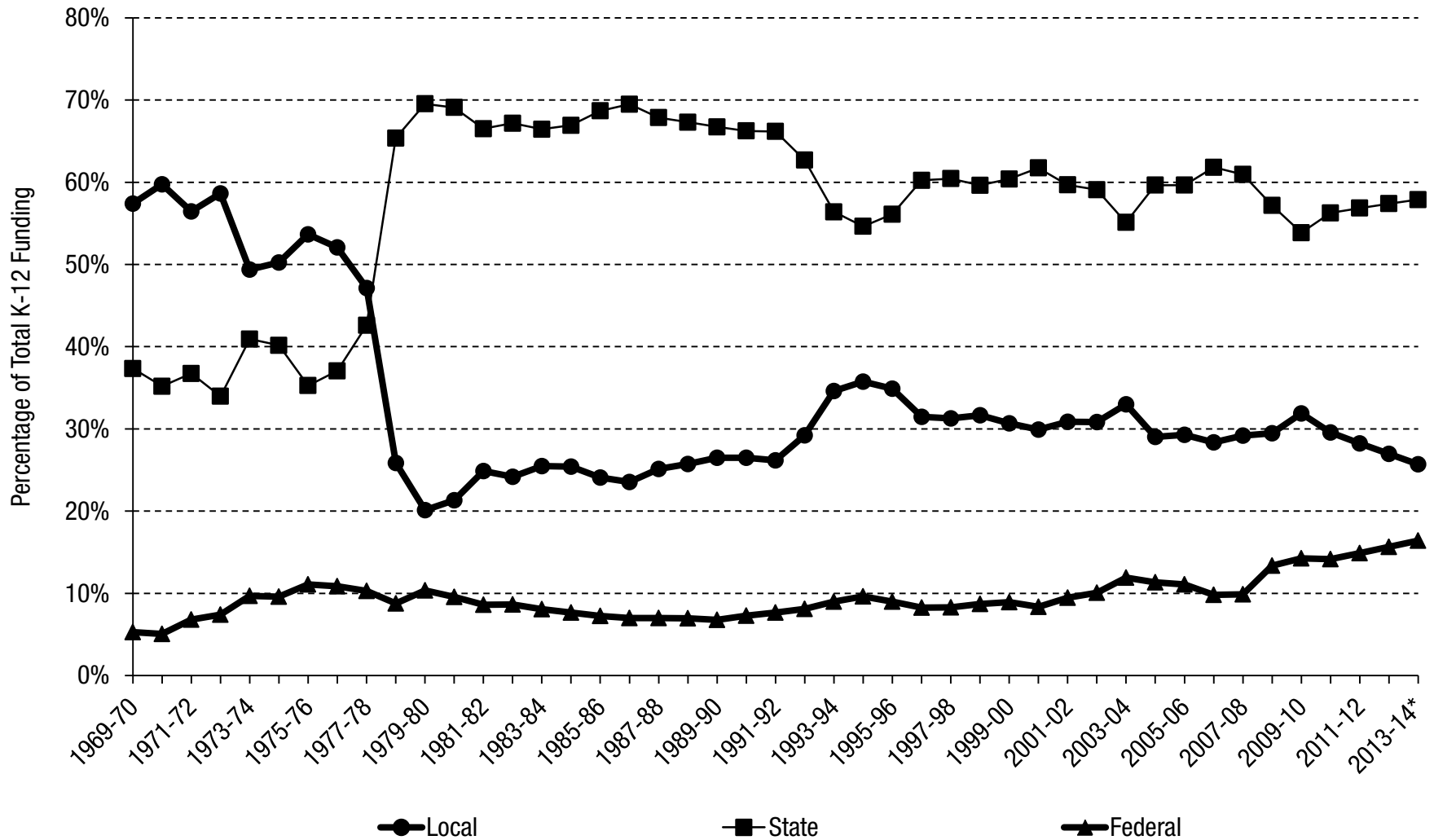
How Do California's Schools Receive Their Funding?

School Districts Received More Than Half of Their Revenues From the State in 2010-11



Note: Only includes revenues in school districts' general funds. Percentages do not sum to 100 due to rounding.
Source: Education Data Partnership

Since 1978-79, California's K-12 Schools Have Received a Larger Share of Their Funds From the State and a Smaller Share From Local Property Tax Revenues



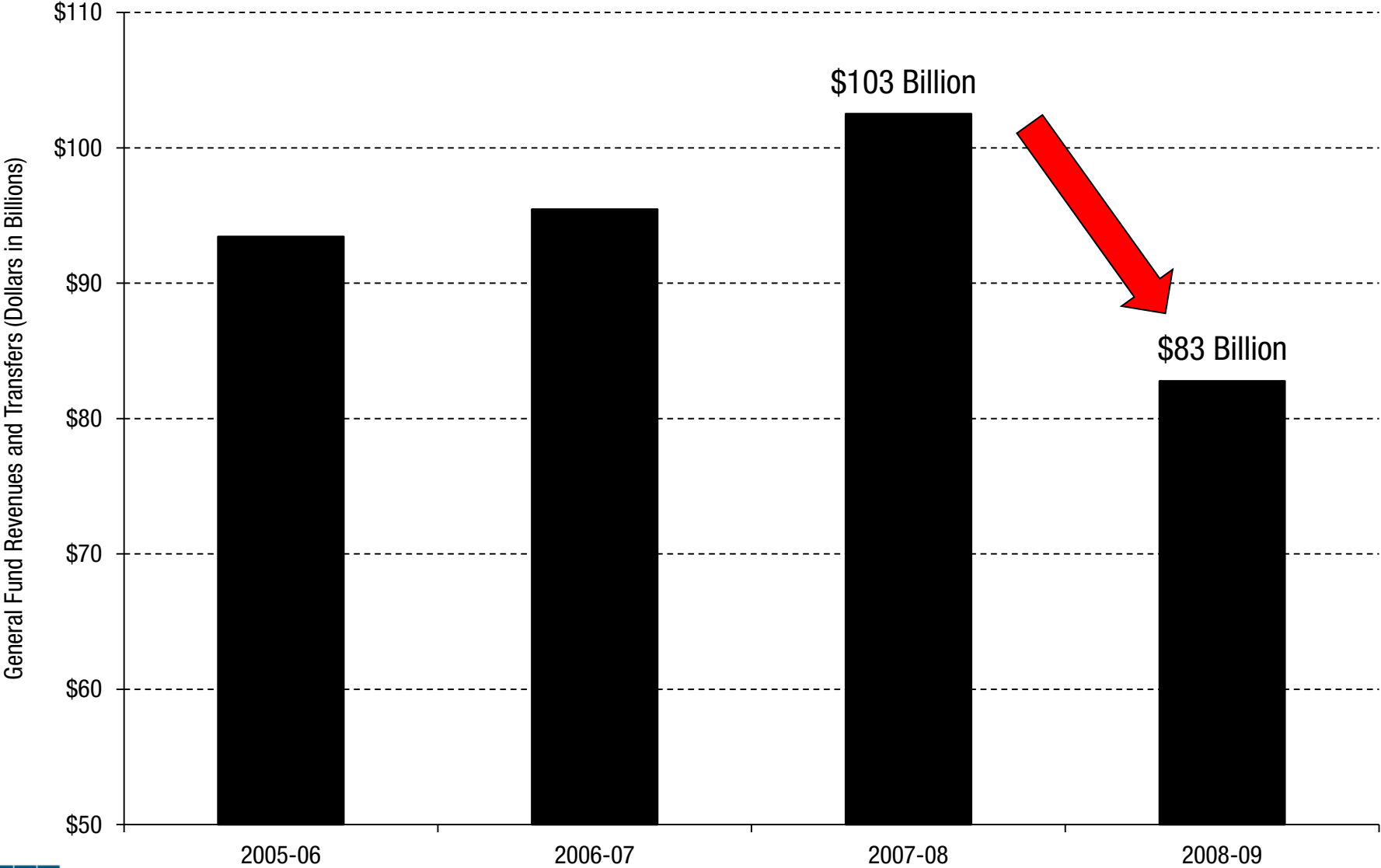
* 2012-13 and 2013-14 estimated.
Source: National Education Association

What Is Proposition 98?

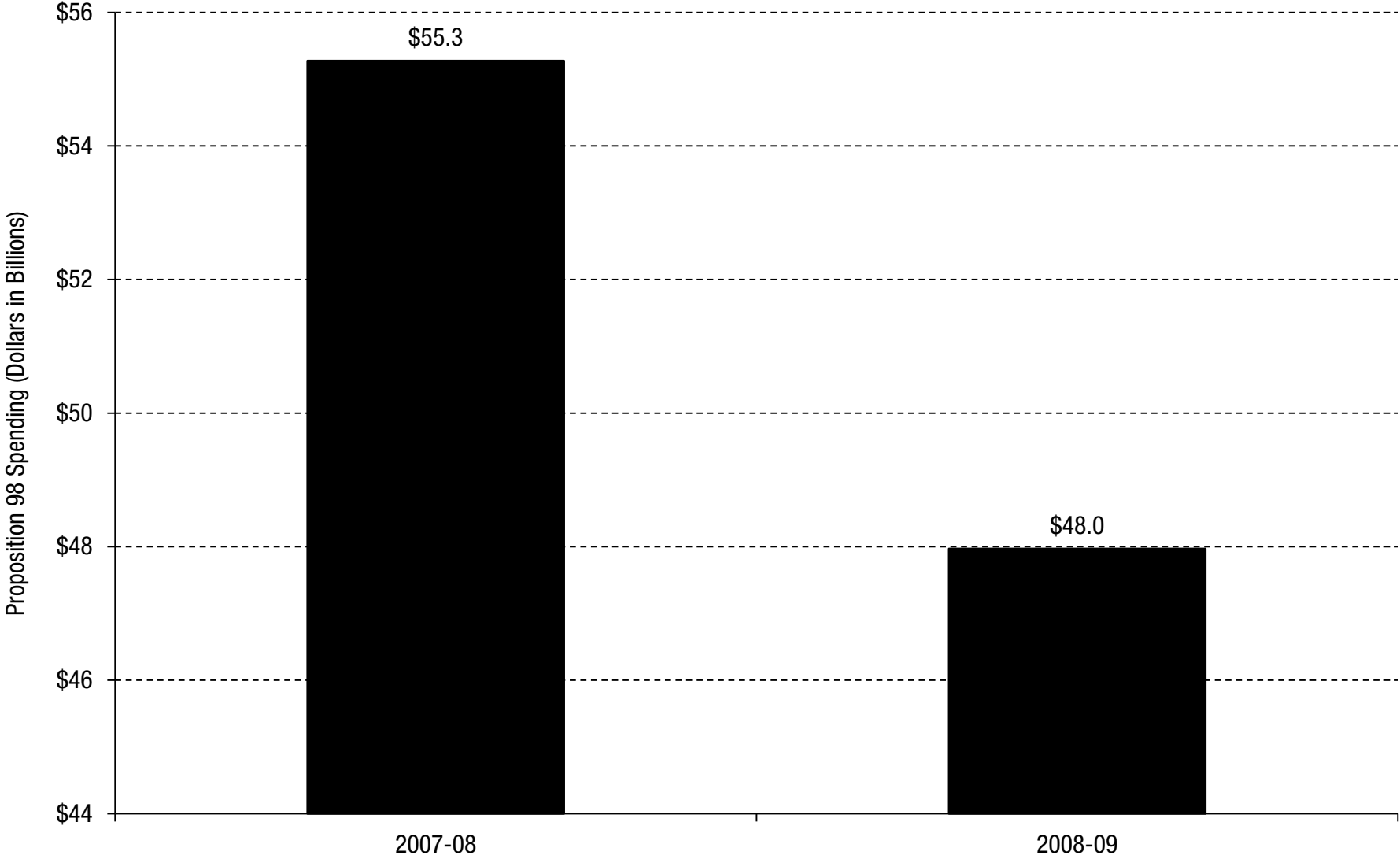
- Proposition 98, approved by California voters in 1988, established a minimum level of funding for K-12 schools and community colleges.
- In many years, Proposition 98 has acted as a ceiling rather than a floor for school funding.
- Proposition 98 does not reflect what an “adequate” education costs.
- The Legislature can suspend Proposition 98 for a year by a two-thirds vote.

Why Do State Revenues Matter for California's Schools?

General Fund Revenues Plunged by About \$20 Billion Between 2007-08 and 2008-09



Proposition 98 Spending Fell by More Than \$7 Billion Between 2007-08 and 2008-09

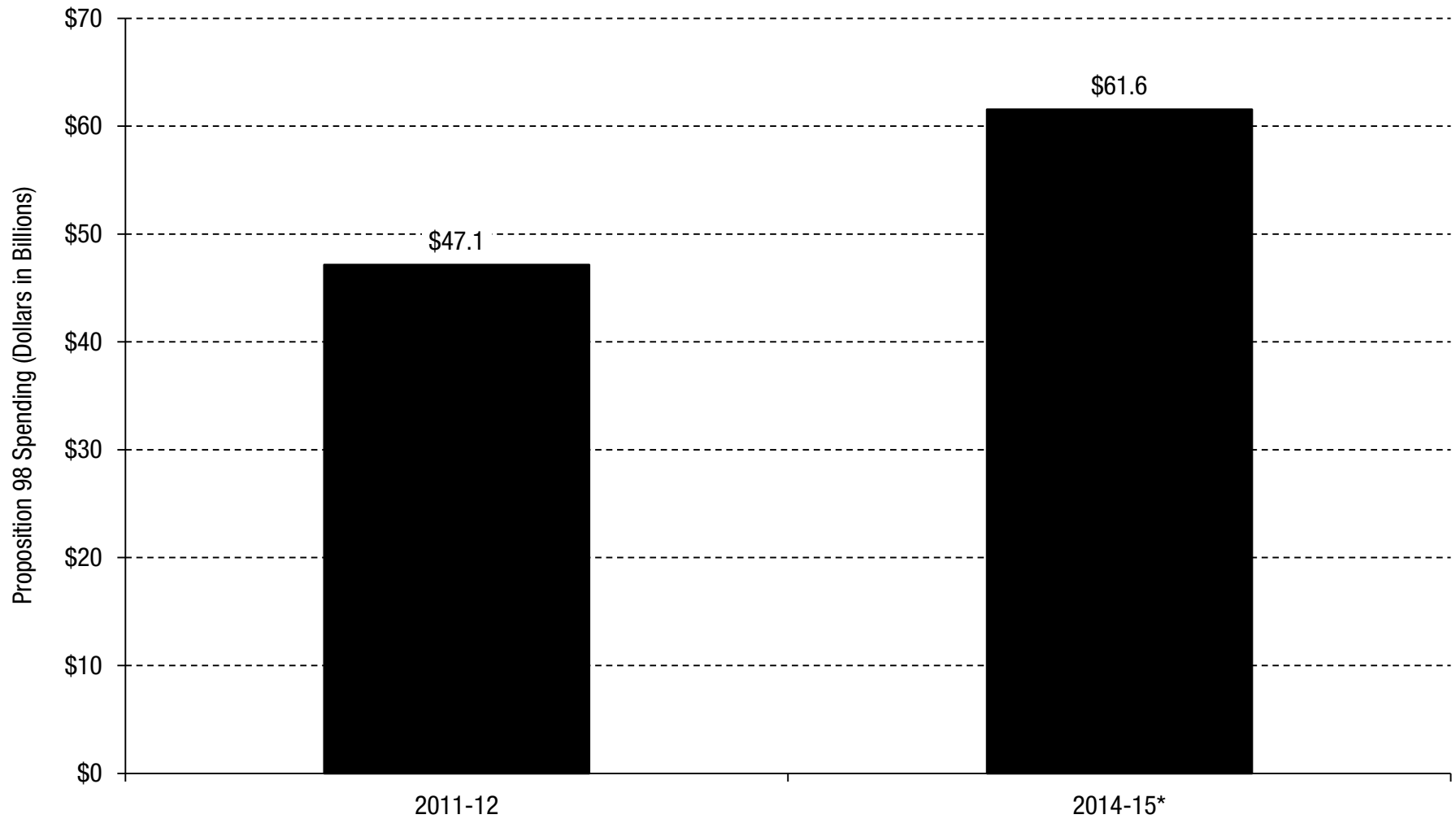


Note: Proposition 98 spending includes both state General Fund and local property tax dollars.
Source: Legislative Analyst's Office

Increased Revenues Boost State Spending for Schools

- Voter approval of two revenue measures in November 2012 – Propositions 30 and 39 – and a recovering economy have increased state revenues.
- Higher revenues have boosted the state’s Proposition 98 minimum funding guarantee for schools and community colleges.
- The Governor’s proposed budget for 2014-15 assumes a Proposition 98 funding level of \$61.6 billion, nearly one-third (30.6 percent) more than in 2011-12, the low point of Proposition 98 funding after the recession.

Increased Revenues Will Boost Proposition 98 Spending by Nearly One-Third Between 2011-12 and 2014-15



* 2014-15 proposed.

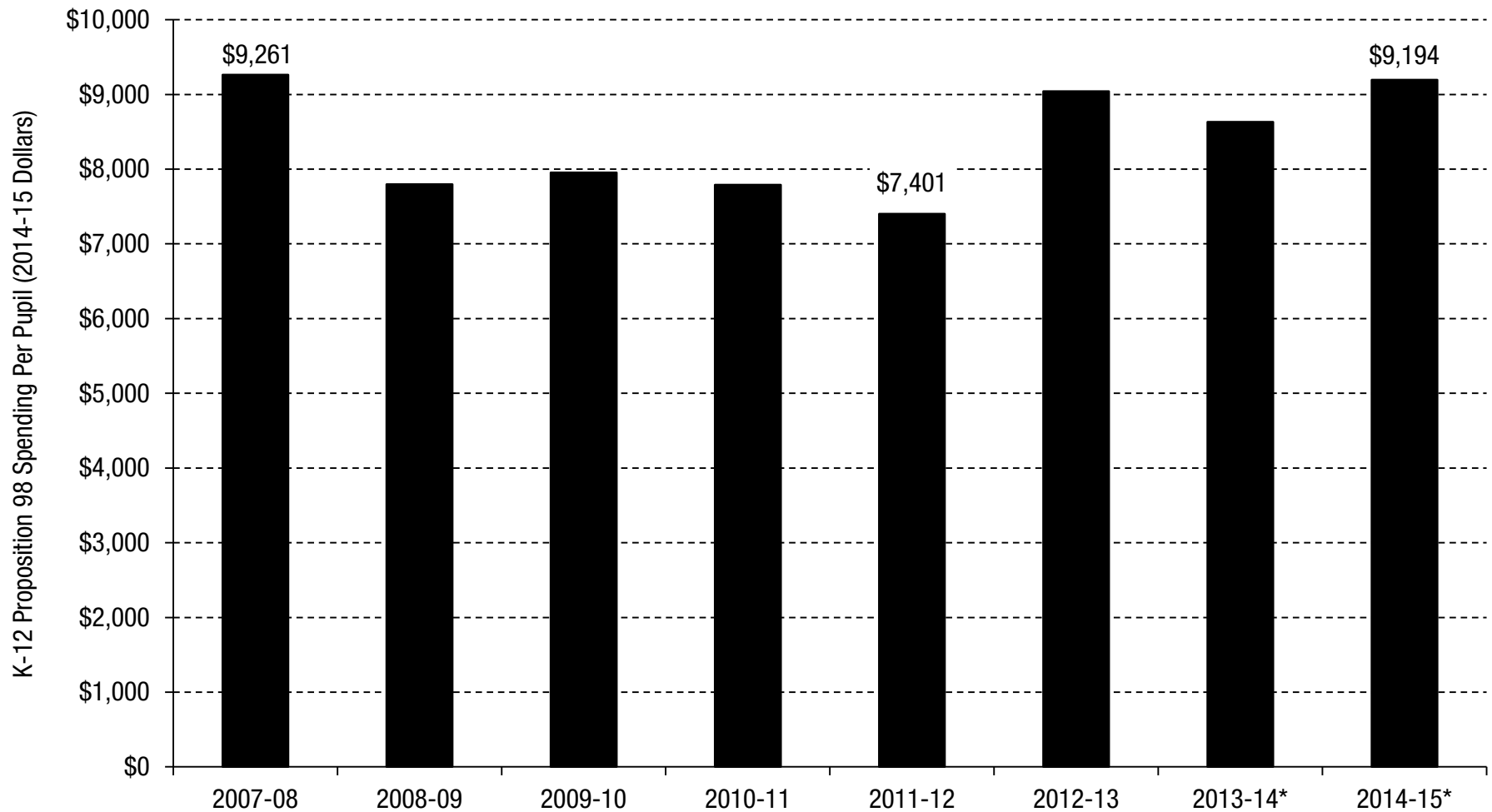
Note: Proposition 98 spending includes both state General Fund and local property tax dollars.

Source: Legislative Analyst's Office

Spending Per K-12 Student Would Nearly Return to Pre-Recession Level Under the Governor's Budget

- Proposition 98 spending dropped by more than \$1,800 per K-12 student between 2007-08 and 2011-12, from \$9,260 to \$7,400, after adjusting for inflation.
- The Governor's proposed 2014-15 budget includes Proposition 98 spending of nearly \$9,200 per K-12 student, an increase of nearly \$1,800 from 2011-12, after adjusting for inflation.

Spending Per K-12 Student Would Increase in 2014-15 Due to Higher Revenues, Nearly Returning to the 2007-08 Level, After Adjusting for Inflation



* 2013-14 estimated and 2014-15 proposed.

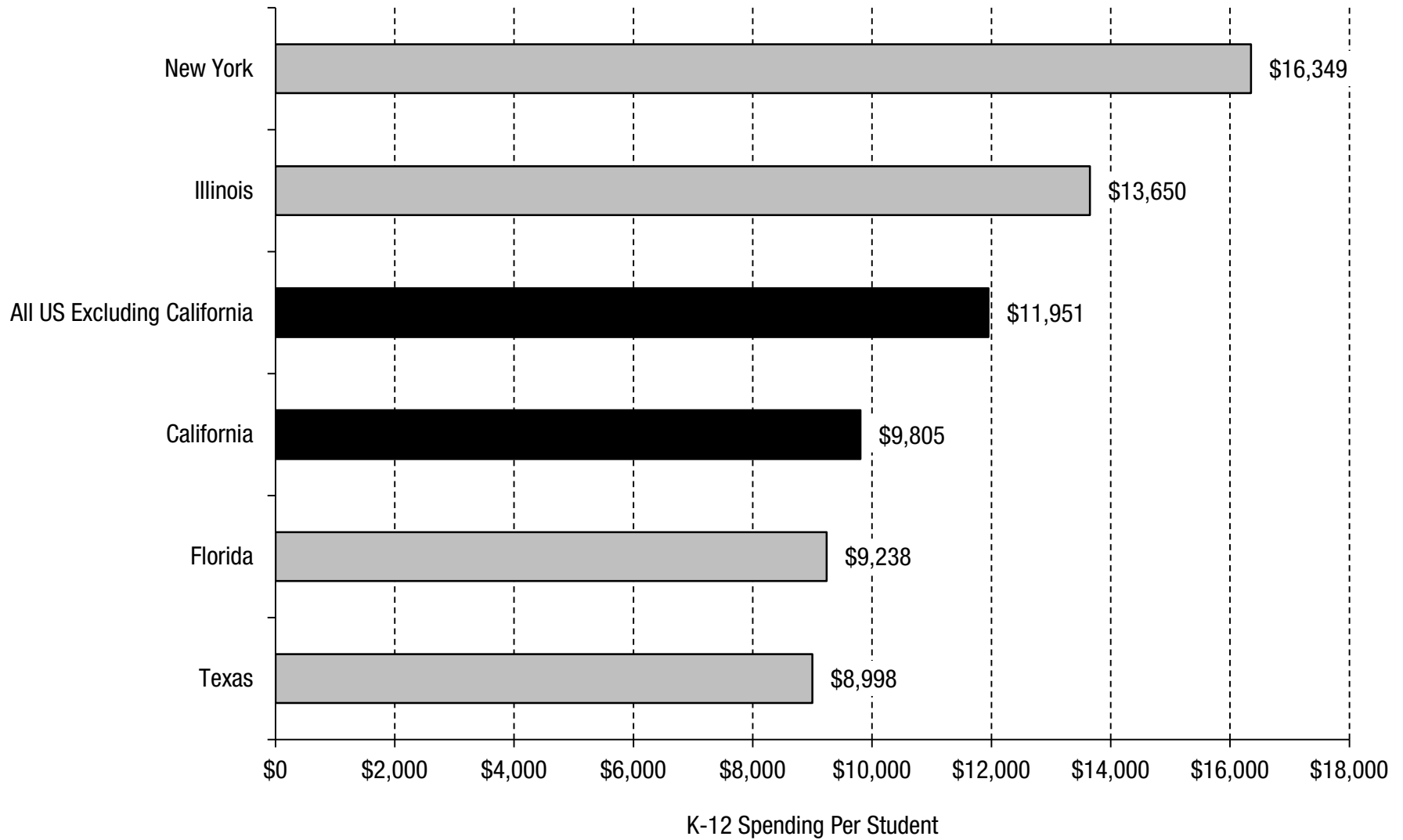
Note: Excludes child care and includes preschool spending. Proposition 98 spending reflects both state General Fund and local property tax dollars.

Source: Legislative Analyst's Office

California Spends Less Per Student Than Many Other States

- California spends significantly less per student than the rest of the US.
- New York spends over \$6,500 more per student than California does.

California Spent About \$2,150 Less Per Student Than the Rest of the US in 2013-14



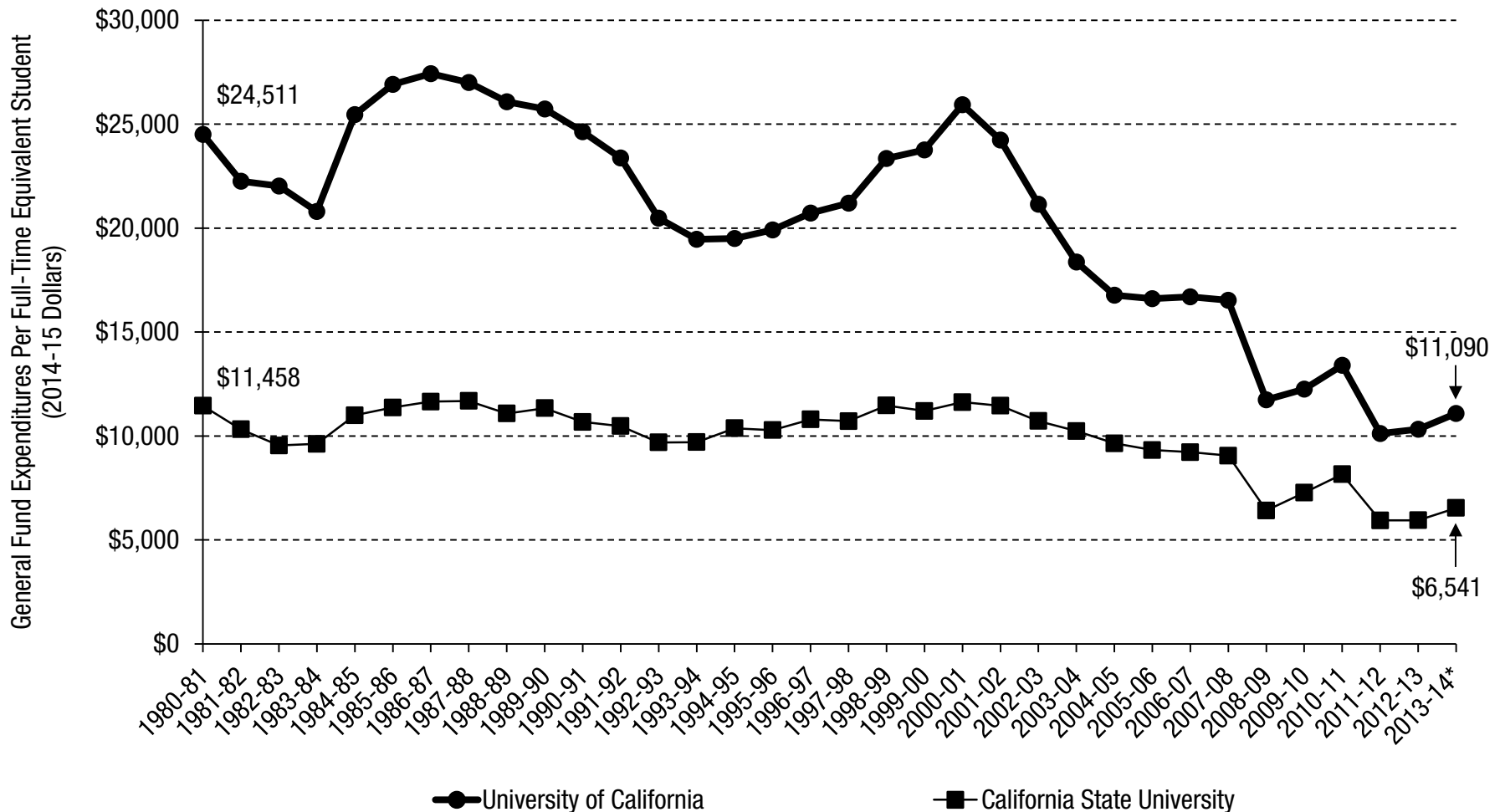
Note: Data are estimated and reflect current expenditures for K-12 public schools, which include funds from state, local, and federal sources.
Source: National Education Association

State Revenues and Recent Trends in Higher-Education Funding

Even With Increased Funding, State Support for CSU and UC Would Remain Near the Lowest Point in Decades

- While General Fund spending would increase by \$142.2 million each for CSU and UC under the Governor's proposed 2014-15 budget, state support would remain significantly below 2007-08 levels.
- General Fund spending per student remains near the lowest point in decades at both CSU and UC, after adjusting for inflation.
- Tuition and fee levels have increased significantly in recent decades. In noninflation-adjusted terms, they remain at historical highs for both CSU (\$5,472) and UC (\$12,192).

For Both CSU and UC, General Fund Spending Per Full-Time Equivalent Student Remains Near the Lowest Point in Decades, After Adjusting for Inflation

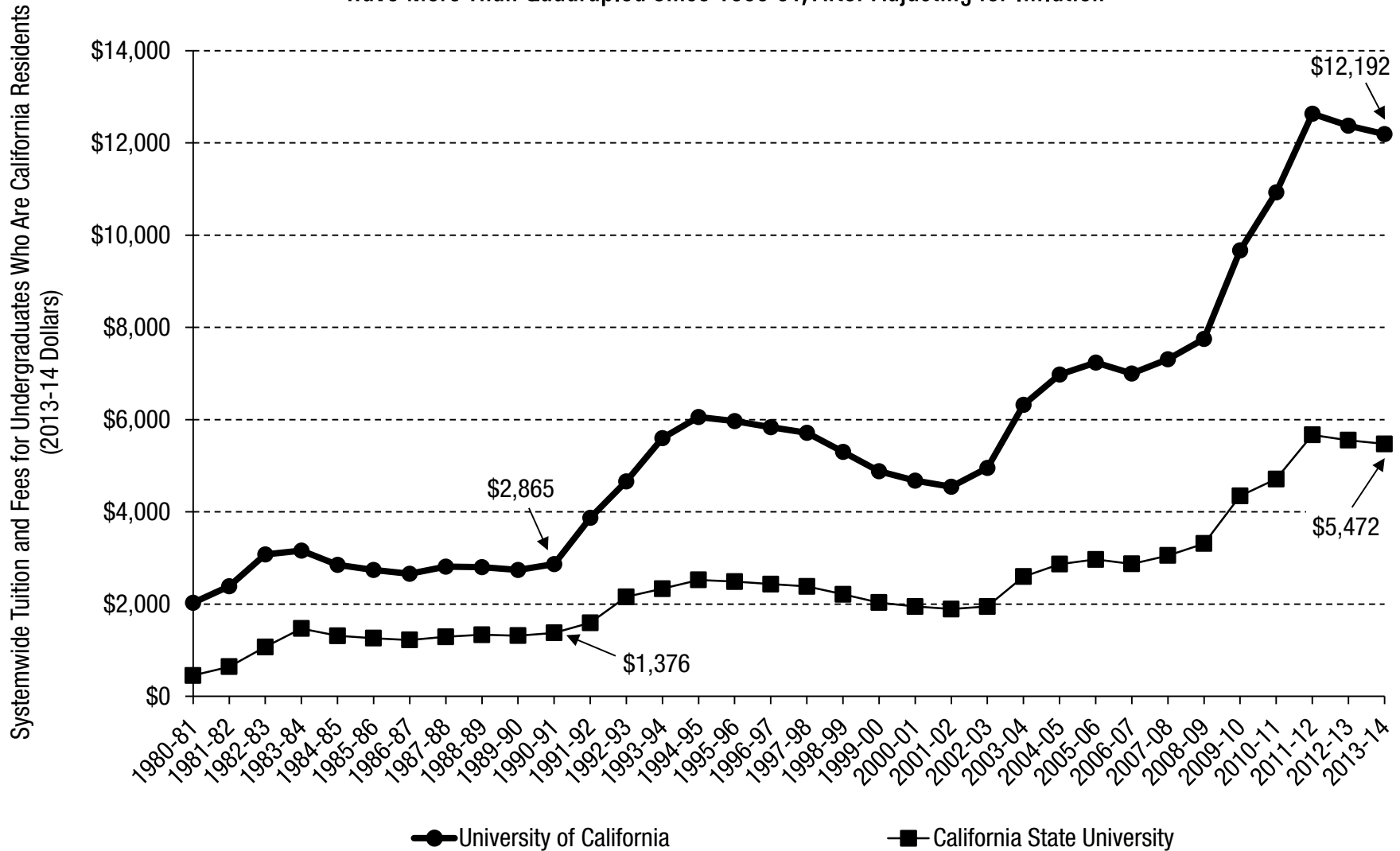


* Estimated.

Note: CSU and UC use "full-time equivalent (FTE) enrollment" to account for the number of credits taken by each student relative to a full-time course load in order to help determine funding levels per student.

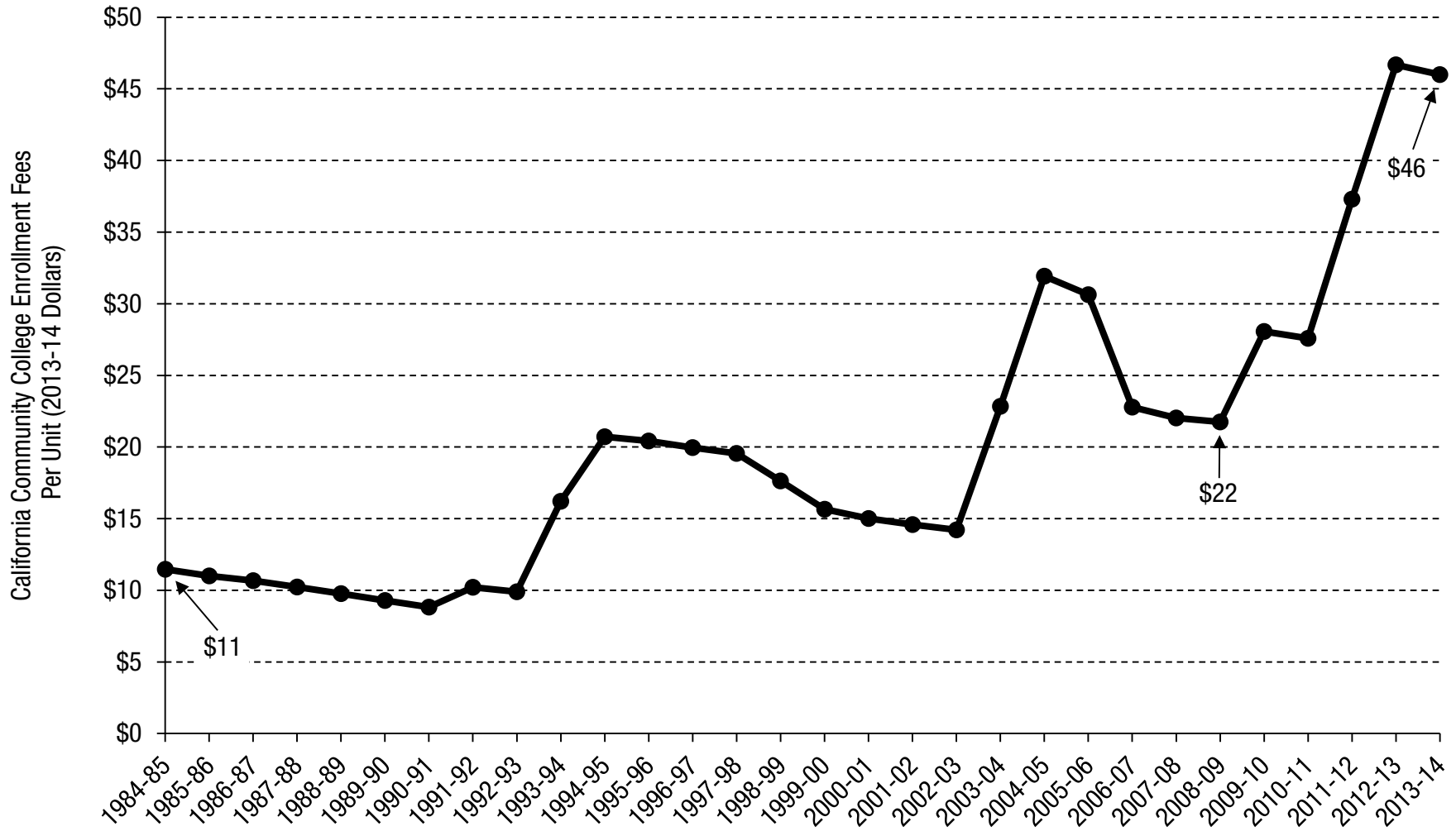
Source: California State University, Department of Finance, and University of California

CSU Tuition and Fees Have More Than Tripled and UC Tuition and Fees Have More Than Quadrupled Since 1990-91, After Adjusting for Inflation



Note: Without adjusting for inflation, systemwide tuition and fees at CSU and UC have been frozen since 2011-12.
Source: California State University and University of California

California Community College Fees Have More Than Quadrupled Since 1984-85, After Adjusting for Inflation



Note: California Community Colleges did not charge fees before 1984-85. Without adjusting for inflation, fees have been frozen since 2012-13.
Source: California Community Colleges Chancellor's Office

Prior Years' Cuts to Community Colleges Reduced Course Access

- The number of course sections available at California Community Colleges (CCC) mirrors economic cycles.
- State General Fund support for CCCs fell by more than 15 percent between 2007-08 and 2011-12.
- Fall course offerings fell by more than 17 percent between 2007-08 and 2011-12 at CCCs.

Proposition 30 Boosts State Revenues, But Its Tax Increases Are Temporary

Proposition 30's Tax Increases Boost State Revenues

- Voter approval of Proposition 30 boosted state revenues by:
 - Increasing the state sales tax rate by one-quarter cent.
 - Adding three new personal income tax rates for very-high-income Californians.

Proposition 30's Tax Increases Are Temporary

- Proposition 30's sales tax increase expires at the end of 2016.
- Proposition 30's personal income tax increases expire at the end of the 2018 tax year.
- General Fund revenues will decline modestly in 2016-17 and more steeply in 2018-19 relative to where they would have been if Proposition 30's tax increases continued.

Continued Reinvestment in Public Systems Will Require Sufficient State Revenues

Modernizing California's Tax System: Options for Reform

- Address the erosion of California's sales tax base.
 - Impose the sales tax on some or all services.
- Tax business property at market value.
- Change the two-thirds vote requirement for increasing state taxes.
- Modify restrictions on the taxing power of local governments.
- Increase accountability by assessing whether California is receiving benefits from specific tax expenditure programs.