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California's K–12 Education System During a Fiscal Crisis

Larisa Shambaugh
Sami Kitmitto
Tom Parrish
Melissa Arellanes
Nathaniel Nakashima

MAY 2011

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Executive Summary

The national recession has created unique resource challenges for public education. California has been hit especially hard, and the impact on the state's K–12 education particularly pronounced. California is of particular interest because of the number of the nation's students the state educates and the depth of education cuts in an already low-spending education state.

In the first section of this report, we compare California's education resources and outcomes to those of other states prior to the fiscal crisis. In unadjusted terms, California spends around the national average, but produces outcomes near the bottom. Adjusting for the higher costs and more challenging student attributes found in the state presents quite a different picture—California's adjusted spending is near the bottom, while producing average student outcomes. Thus, the education system was arguably among the leanest across the states prior to the waves of substantial cuts that started with the recession.

The second half of the report presents the experiences and responses of state and local education policy makers in the initial years of these cuts. Using an index of district effectiveness, we selected a sample of higher- and lower-ranked districts to select a sample to interview. These interviews with 16 stakeholders from different levels across the state—including seven district superintendents, four county superintendents, and six state policymakers—produced reports of severe cuts from almost every area of the education system, as well as important changes in state policy to cope with the crisis (most notably through providing more budgeting flexibility to districts).

Tough times like these provide not just extreme challenges but also opportunities, including addressing long-standing inefficiencies at the district level and making changes in state policy. To this end, we share several key considerations for state policymakers heard during our interviews, including

- Stabilizing and increasing education funding in the state
- Making permanent the funding flexibility allowed during the fiscal crisis
- Reforming the current budgeting process to lessen the burden on districts
- Changing state regulations on seniority to increase flexibility for districts' staffing decisions

Introduction

States across the country have been struggling through tough economic conditions for several years. State budget cuts have hit education—a sizeable portion of a state's expenditures—particularly hard. In 2010, over two thirds of states made cuts to their K–12 education budget (National Governors' Association, 2010). Even as the recession and the sluggish recovery produce higher rates of child poverty, homelessness, and other social ills, our education system strives to prepare students, many in higher need than before, for college and careers.

While virtually all states are facing fiscal difficulties, California is of particular interest because of the state's size and the depth of the cuts to its K–12 education budget. California serves about one eighth of the country's children, and has faced several years of massive deficits and large cuts to education. With a $14.5 billion deficit in 2008, which grew to $24 billion in 2009, California struggled to balance its budget with short-term fixes that led to ongoing deficits in the next year. After balancing the budget to deal with an estimated $19 billion deficit in 2010, California now faces another $19 billion gap. From 2007–08 to 2010–11, K–12 education has taken the brunt of the budget cuts, with almost a 14 percent cut, compared with 9 percent in health and human services, 9 percent in the prison system, and 1 percent in higher education (Brown, 2010).

Given the ongoing fiscal crisis in the state, California provides an interesting illustration of the decisions and consequences state and local policymakers and educators confront during tough economic times. To capture this story, this report is divided into two sections. In the first section, we compare California to other states prior to the onset of the fiscal crisis, in terms of resources and investments in K–12 education as well as the educational outcomes produced by the state prior to the dramatic cuts of the past several years.

These analyses lead us to the primary question confronting this paper—what happens when substantial resource reductions occur in the largest state in the nation when it is already at or near the bottom in educational investment? We will not be able to fully address this question, in part because the crisis appears far from over and in part because we interviewed only a sample of stakeholders from across the state. Instead, in the second section of the paper, we present baseline information regarding how a sample of local and state education practitioners and policymakers reported initially responding to these cuts. We conclude with implications for state policy moving forward.

How Does California Compare to Other States?

Perceptions of California's education system are varied. For instance, The Economist noted that California public schools are "with some exceptions, awful" (From Bad to Worse, 2010). However, there are also stories of intermittent success, such as one recent report noting that California ranks sixth in the percentage of students passing Advanced Placement tests (College Board, 2011). Before examining how districts are faring under the fiscal crisis, therefore, we first examine California's investment in and return from its education system prior to the onset of the fiscal crisis, and how these measureable inputs and outputs compare to other states.

How Do California's Education Expenditures Compare to Other States?

Looking first at how much states spend per student, in the 2006–07 school year (the year prior to the fiscal crisis), as Exhibit 1 shows, California ranked 29th out of 50 states and the District of Columbia.[1] Compared with the national average of $9,683 per pupil, California spent $731 per student (or 7.5 percent) less. In general, over the past 10 years California was generally below the median, but not among the lowest in the nation. While this brief focuses on 2006–07 and the 10 preceding years, recently released data placed California at 41st in spending in the 2007–08 school year (National Education Association, 2009) and 46th in the 2009–10 school year (Rogers, Fanelli, Freelon, & Medina, 2010).

However, because the cost of labor varies across states, higher average expenditures reflect differences in labor costs as well as differences in access to educational services. To adjust for such education cost differences, the National Center of Education Statistics (NCES) has developed a comparable wage index (CWI) that provides a measure of differing labor costs across states.[2] The CWI allows us to adjust nominal expenditures per pupil for differences in cost across states in an attempt to provide a more accurate picture of states' relative education buying power.

The cost of living in California is higher than in many other states, and accordingly, the cost of hiring and retaining teachers with comparable characteristics is also high. For instance, California teachers were the highest paid in the nation in 2007–08 (National Education Association, 2009). In cost-adjusted dollars (using the NCES CWI), as seen in Exhibit 2, in 2006–07 California ranked 46th in cost-adjusted expenditures per pupil, spending over $1,400 per student (or 16.6 percent) less than the national average. These cost-adjusted figures provide better estimates of the differences in educational services across states than measures based on nominal dollars. In contrast to California's fluctuating unadjusted ranking, California's ranking in cost-adjusted expenditures per pupil was consistently very low over the same 10 years, hovering between 46th and 48th.

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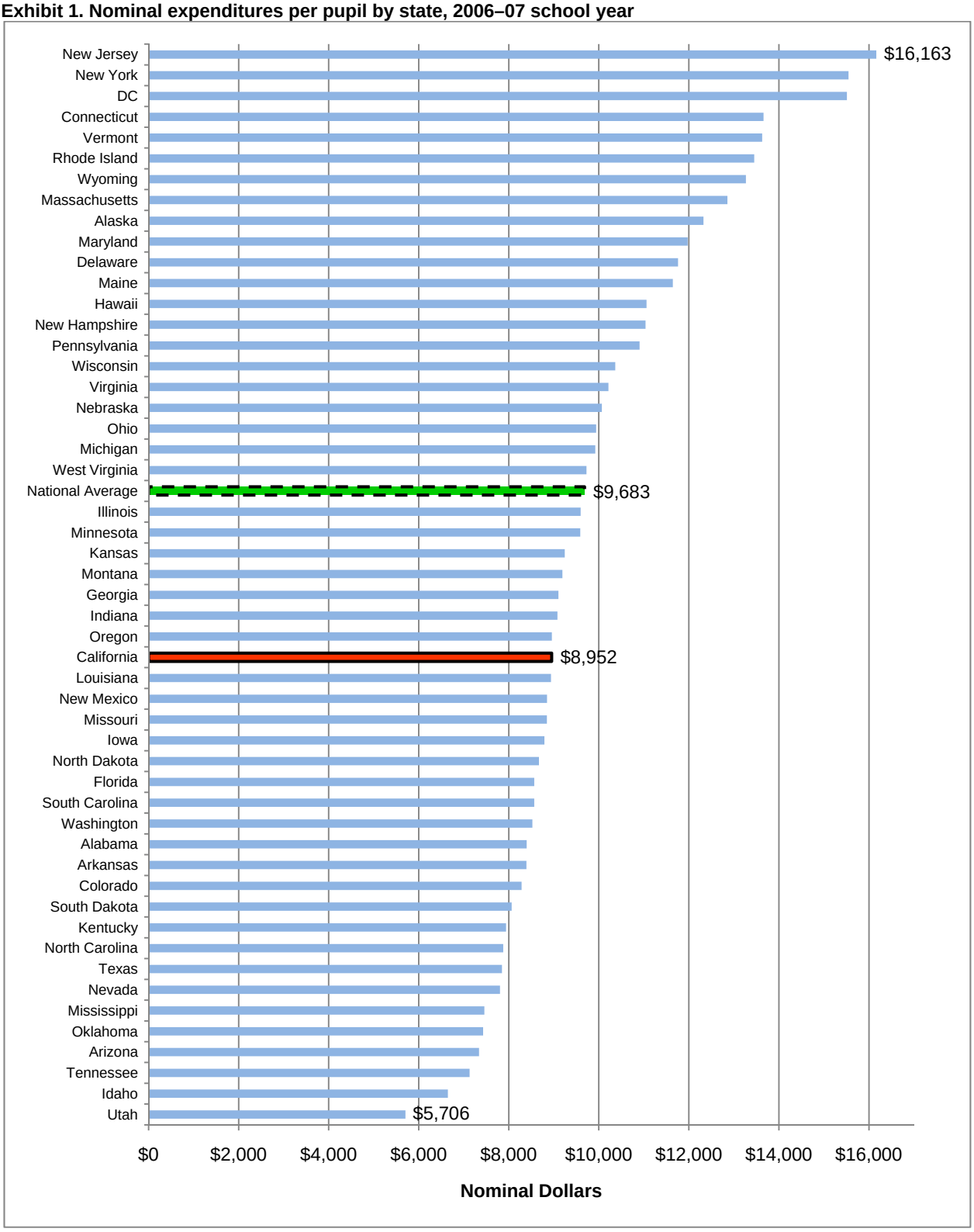
[1] Our rankings are out of 51 as we include the 50 states and the District of Columbia. We calculated this from the Common Core of Data (CCD) State Fiscal Files for the school years 1996-97 to 2006-07, using the CCD's current expenditures Exhibit as our numerator and 2007 membership (the count of students on the school day closest to October 1, 2007) as the denominator.

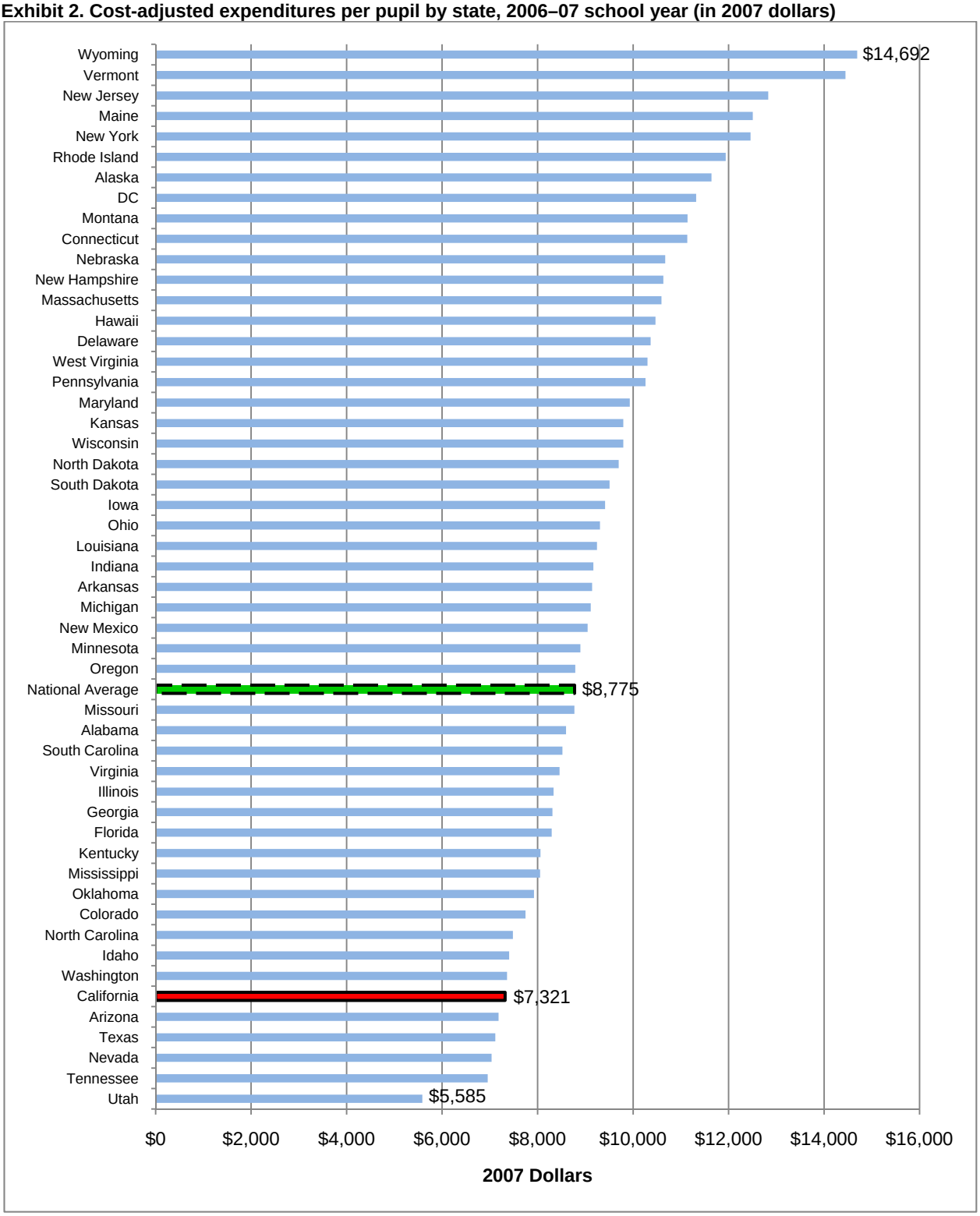
[2] The index is based on the wages of non-teacher, college-graduate, adults in states and districts (Taylor, Glander, Fowler, & Johnson, 2007).

Exhibit 1. Nominal expenditures per pupil by state, 2006–07 school year



SOURCE: Common Core of Data (CCD), the National Public Education Financial Survey Data, 2006–07

Exhibit 2. Cost-adjusted expenditures per pupil by state, 2006–07 school year (in 2007 dollars)



SOURCE: Common Core of Data (CCD), the National Public Education Financial Survey Data, 2006–07. NCES Comparable Wage Index (CWI), 2005. Consumer Price Index, 2007.
Note: CWI's base year is 2000. The CWI ends with the 2004–05 school year, so for subsequent years, we inflated the 2004–05 CWI numbers using the consumer price index (CPI). CPI growth, however, was slower than national growth over the time period, so the 2006–07 national average in adjusted terms and 2007 dollars is lower than the 2006–07 national average in unadjusted terms.

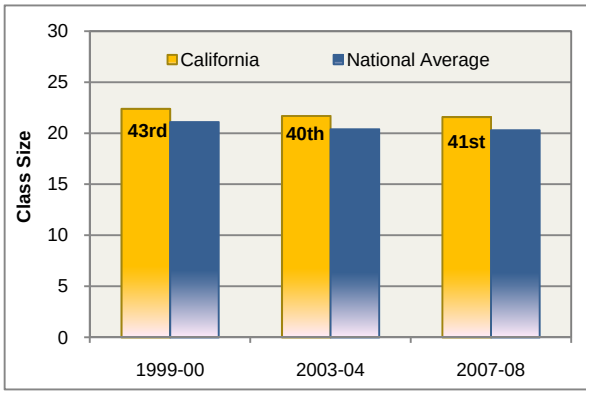
How Do California's Student-to-Staff Ratios Compare With Other States?

In addition to looking at what California spends per student compared with other states, we also considered non-monetary inputs—staffing ratios and class size—given that instructional staff are one of the most important factors in the quality of a child's education.[3] The data largely confirm what we saw in the previous discussion: California ranks near the bottom.

Prior to the current fiscal crisis, California ranked second to last in the number of students per certified staff (which includes teachers, administrators, support staff, guidance counselors, and librarians).[4] This translates, in 2006–07, to California having approximately 17.7 students per certified staff member, 4.5 students more than the national average.

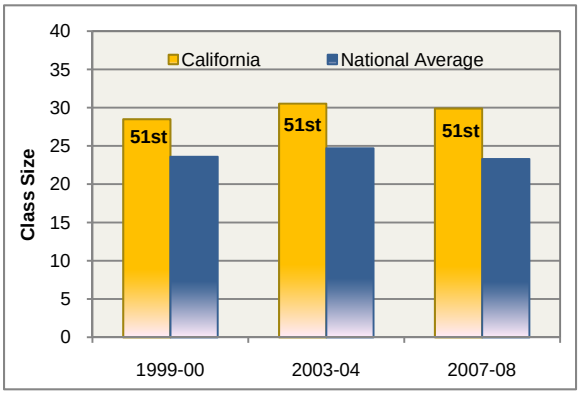
The story is more nuanced when looking at class size. In elementary classes, California ranked 41st in 2007–08, with 1.3 more students than the national average (see Exhibit 3). Though this difference is not large, it is notable that California still ranked poorly despite a class size reduction initiative enacted in 1996 to reduce class sizes at the elementary level. In secondary classes, California ranked 51st; in 2007–08 the state had 6.6 more students per class than the national average (see Exhibit 4).

Exhibit 3. Class size in elementary self-contained classrooms, California and national averages, 1999–2000, 2003–04, and 2007–08 school years



SOURCE: U.S Department of Education, National Center for Education Statistics, Schools and Staffing Survey (SASS), Public School Teacher Data File.

Exhibit 4. Class size in secondary departmentalized classrooms, California and national averages, 1999–2000, 2003–04, and 2007–08 school years



SOURCE: U.S Department of Education, National Center for Education Statistics, Schools and Staffing Survey (SASS), Public School Teacher Data File.

In summary, comparing California's spending per student, staffing levels, and student achievement to other states, we find that California was among the lowest of all states in its K–12 education investment prior to the current cuts.

How Does California's Achievement Compare With Other States?

Of even greater importance is student achievement. For this, we turn to the National Assessment of Educational Progress (NAEP), the only nationally representative assessment that allows direct comparisons of achievement across states. Below, we only show data from the fourth grade reading assessment. However, these results were consistent for California across both fourth and eighth grade and across reading and mathematics.

From 1998 to 2007, California students consistently scored lower relative to students in other states on fourth grade reading (see Exhibit 5). While California ranked as high as 37th in 1998, the state scored near the bottom by 2003, and was ranked 48th in 2007.[5]

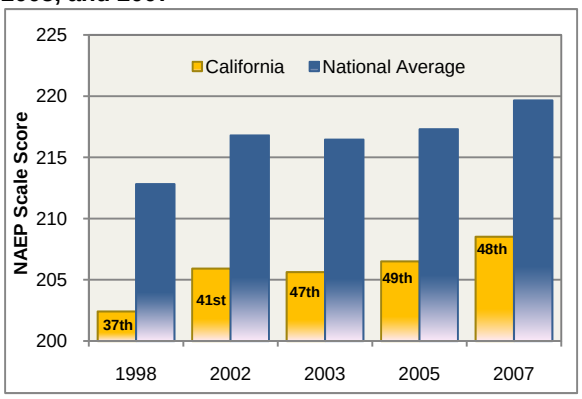
These measures, however, do not take into account differences in student characteristics across states. Certain types of students, such as English learners, face additional learning challenges. Accordingly, researchers often control for these characteristics when comparing scores. For example, comparing NAEP results between California (where 32 percent of all students are English learners) and North Dakota (1 percent English learners) may not provide a fair comparison of the relative effectiveness of these two states' education systems. Indeed, California has a larger percentage of English learners than any other state by far

[3] Data on staffing ratios come from the Common Core of Data state non-fiscal files from 1996-97 to 2006–07. Data on class size come from the School and Staffing Survey for the 2000–01, 2003–04, and 2006–07 school years.

[4] We combined these categories of staff to provide a more consistent measure across states, given that an employee classified as support staff in one state might be classified as an administrator in another state.

[5] NAEP is administered from January through March in the year noted; therefore, the 2007 NAEP administration corresponds to the 2006-07 school year.

Exhibit 5. NAEP reading grade 4 scale score, California and national averages, 1998, 2000, 2003, 2005, and 2007



Source: U.S. Department of Education, Institute of Education Sciences, National Center for Education Statistics, National Assessment of Educational Progress (NAEP), 1998, 2002, 2003, 2005, and 2007 Reading Assessments.

(the national average is 9 percent).[6] California also has one of the highest rates of students in poverty, at 53 percent, compared with the national average of 45 percent.[7]

Thus, in addition to straight comparisons of achievement data, we also present adjusted test scores, which control for demographics correlated with achievement, including the percentage of students eligible for free or reduced-price lunch, of students with disabilities, of students who are English learners, and percentage of students of different races/ethnicities.

After adjusting for these demographic differences across states, California ranks much higher in achievement (see Exhibit 6). Though California's ranking in demographic-adjusted achievement dropped from 19th in 1998 to 23rd in 2007, the state ranked above the median and scored above average in all years.

Comparing Both Inputs and Outputs

Now that we have examined both the resources going into the education system and the resulting educational outcomes, we consider these two measures together. We want to know if states with similar resources and similar students get similar outcomes. Similarly, we want to know whether, for the same level of achievement produced by California, other states are spending more or less.[8]

To this end, we examined how California compares with other states in the provision of K–12 public education, plotting achievement (NAEP scores in 2007) and inputs (expenditures per pupil in 2006–07) together to examine where California falls. We present these analyses in both unadjusted and adjusted terms.

First, in unadjusted terms, California ranked toward the middle in expenditures per pupil in 2006–07, and near the bottom in achievement. Therefore, as seen in Exhibit 7, it is not surprising that we find a number of states spending the same as California and achieving much more (e.g., North Dakota and Florida). We also find that only a few states with similar achievement spend the same or less (e.g., Arizona and Mississippi).

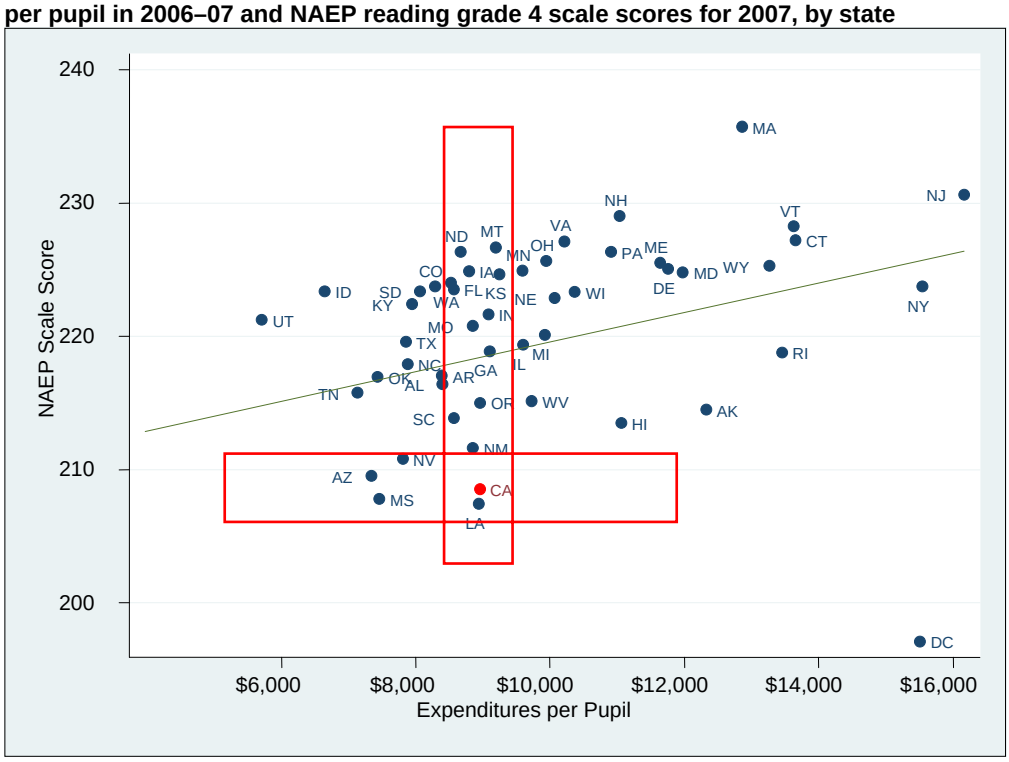
However, the picture looks substantially different when using cost-adjusted expenditures and demographic-adjusted NAEP scores. A few states have higher adjusted achievement with similar or fewer cost-adjusted resources (e.g., Texas and Idaho), but there are a number of states with similar adjusted resources that show lower adjusted outcomes (e.g., Tennessee, Nevada, and Arizona). All of the states with achievement similar to California have greater resources, with the exception of Utah, whose adjusted NAEP score is slightly lower but whose adjusted expenditure per pupil is much lower. Furthermore, some states with comparable adjusted achievement spend a lot more (e.g., Maryland, Nebraska, and Maine).

In sum, prior to the recession, in unadjusted terms California looked like a state with a relatively low investment in public education that was not using these resources particularly well in regard to the education outcomes produced. However, this depiction differs substantially when using adjusted measures. In terms of cost-adjusted spending and real resources, California was at or near the bottom of all states prior to the current wave of cuts. Comparing these to student-characteristic-adjusted outcome measures, California appears to have average or above-average education results.

This analysis does not address the adequacy of the level of California's education resources, an issue that others are debating in the courts and the state capitol. Nor does this analysis address what California should be producing in terms of student achievement—as California is among the top 10 states in terms of average household income (U.S. Census Bureau, 2010), one might expect that this level of resources would be associated with higher levels of education investment and achievement. Rather, we simply assert that, based on the data shown above, California's K–12 education system appears quite productive in terms of student outcomes relative to investment. Given this, one might expect the additional dramatic cuts associated with the current financial crisis to have an especially pronounced impact on the state's education system.

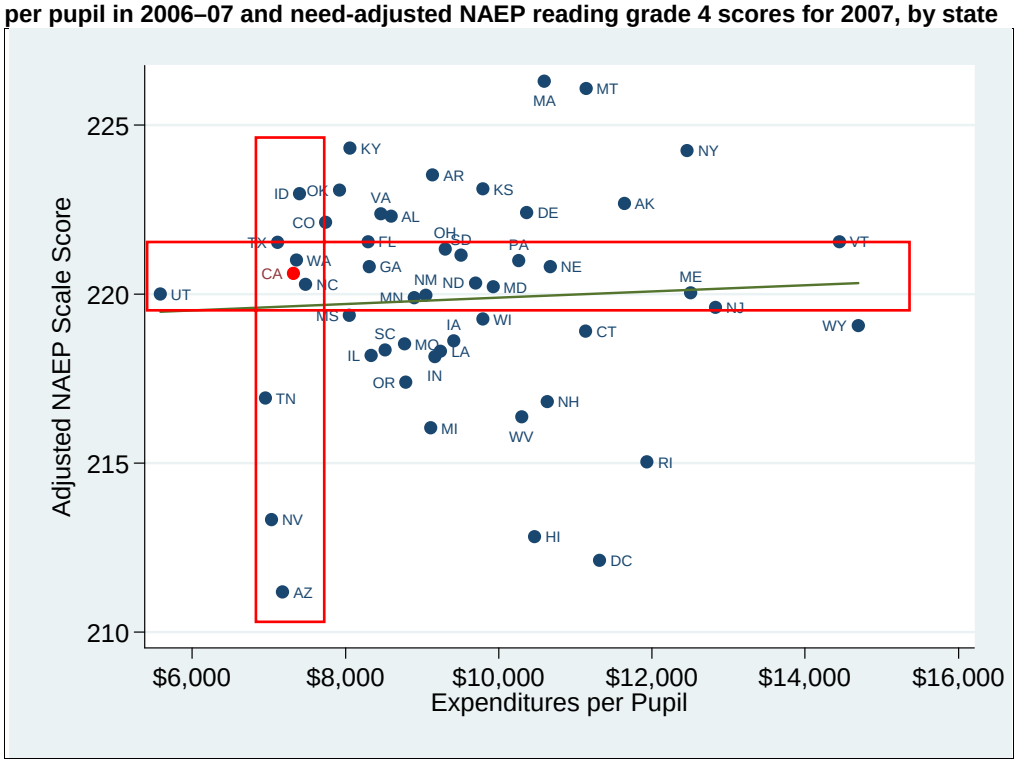
[6] Source: U.S. Department of Education, Institute of Education Sciences, National Center for Education Statistics, National Assessment of Educational Progress (NAEP), 2007 Reading Assessments.
[7] U.S. Department of Education, Institute of Education Sciences, National Center for Education Statistics, National Assessment of Educational Progress (NAEP), 2007 Reading Assessments.
[8] These analyses do not focus on whether the state is spending an adequate amount on public education, but on what is being produced in light of what is going into the system.

Exhibit 7. Achievement and expenditures using unadjusted measures: expenditures per pupil in 2006–07 and NAEP reading grade 4 scale scores for 2007, by state



Source: U.S. Department of Education, Institute of Education Sciences, National Center for Education Statistics, National Assessment of Educational Progress (NAEP), 2007 Reading Assessment.

Exhibit 8. Achievement and expenditures using adjusted measures: cost-adjusted expenditures per pupil in 2006–07 and need-adjusted NAEP reading grade 4 scores for 2007, by state



Source: U.S. Department of Education, Institute of Education Sciences, National Center for Education Statistics, National Assessment of Educational Progress (NAEP), 2007 Reading Assessment.

Stories From the Trenches: California Districts During the Fiscal Crisis

From a base of limited education resources (compared with other states prior to the fiscal crisis), California has experienced a substantial decline in resources over the five years since the start of the crisis. While estimates vary for what the cuts mean for per pupil expenditures, the California Budget Project estimates that the cuts have dropped spending by $1,500 per student from 2006–07 to 2010–11, bringing them to approximately their 1997–98 level, after adjusting for inflation (California Budget Project, 2010a).

Media reports have relayed stories of schools and districts taking drastic measures to balance district budgets. Many stories that emerged in the first few years of the fiscal crisis focused on large numbers of layoffs of teachers and other school and district staff. In August 2009, the California Teachers' Association estimated that approximately 17,000 of its members (approximately 5 percent of the state's teaching force) had been laid off that year (Robelen, 2009). In March 2010, California's State Superintendent of Public Instruction announced that almost 22,000 teachers (approximately 9 percent of the state's teaching force) received layoff notices (California Department of Education, 2010a). While the number of notices tends to overestimate of the actual number of layoffs, their sheer number indicates the magnitude of continuing staffing cuts. With a general increase in teacher layoffs, reports inevitably follow about increased class size.

In this study, we sought to capture what districts were facing in 2008–09 and 2009–10 in order to capture a baseline of real-time effects of the fiscal crisis on California education on a sample of districts and counties in the state.

Selecting Our Sample Based on a Measure of District-Level Effectiveness

To gather diverse perspectives for this "snapshot" of K–12 education in a fiscal crisis, we conducted interviews with 16 stakeholders from different levels across the state—including seven district superintendents, four county superintendents, and six state policymakers—in an attempt to understand the kinds of decisions practitioners and policymakers have been facing during these tough economic times. (See the "Who We Spoke With" box for more details on the people we interviewed and how we selected them.)

To examine how the fiscal crisis is affecting different types of districts, we selected districts to represent a mix of those that ranked fairly high and fairly low on a "District Effectiveness Index" we constructed. We sought to understand whether districts that appear to historically have been relatively more or less cost effective make different decisions or fare differently in times of severe financial stress.

Our District Effectiveness Index has two components: 1) expenditures per pupil,[9] and 2) academic achievement as measured by the California Standards Test (CST). For both measures, we used data from the four school years prior to the fiscal crisis—2004–05 to 2007–08. This index combines the inputs a district receives and the educational outputs a district produces to generate a measure of its "bang for the buck." (See Appendix A for a full description of how we generated our District Effectiveness Index.) To allow for accurate comparisons, we limit the analysis presented in this report to unified school districts, which serve over 70 percent of the state's students.

Looking at the output for California's unified districts in Exhibit 9, we see that districts with higher and lower District Effectiveness Index scores are found throughout the state, with some clustering geographically.[10] However, these findings, despite being drawn from a sample that represents diverse demographics, location, and enrollment, only provide a small piece of the picture of what is going on in the state. Further investigation is needed to determine how widespread these themes are and, eventually, to determine the effects of these cuts on students, teachers, and the education system as a whole.

An Unprecedented Crisis in California Funding

All of the people we interviewed reported that the current budget crisis has led to the sharpest decline in resources in their memory. While the majority of respondents noted that California education funding has historically seen large fluctuations, respondents across the system described the current economic situation as "unprecedented" and "far and away the worst I have ever seen." One county superintendent summed it up by saying that "the depth of this current economic crisis is more significant than anything we have seen in our careers and in our lifetimes."

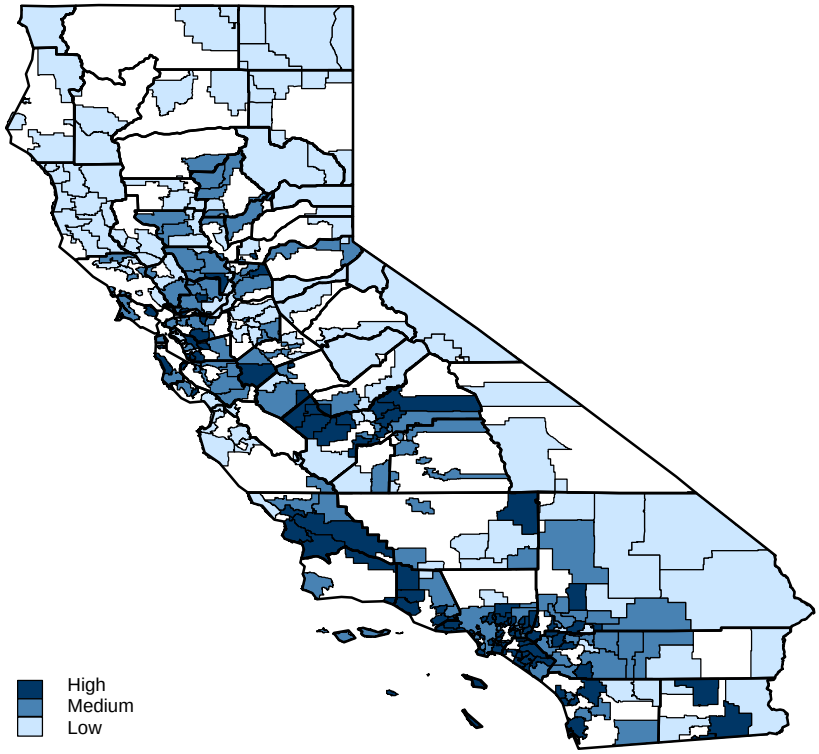
The harsh cuts have led to two districts seeing losses of between $900 and $1,400 per student (the average expenditure per student in California is approximately $8,000), and one district noting a 23 percent cut in revenues.

[9] We derive the expenditures per-pupil from California's Standardized Accounting Code Structure (SACS) database.
[10] For districts with 3,000 or more students, enrollment size does not seem to relate to a district's index ranking.

Although the recession technically ended in 2009, the recovery has been slow. When we interviewed respondents in 2010, the national economy still remained smaller than when the recession began (Bivens, 2010). The recovery has been especially slow for California (California Budget Project, 2010b). Practitioners and policymakers alike recognized that the situation in the next few years would not look any brighter. For example, one state policymaker noted,

> *As bad as the situation has been for the last couple of years, there have been ways to fill the gaps with stimulus money and [other short-term state budgeting decisions]. Going forward, there are tougher decisions to make at the local level. In some ways, we have not seen the full effects yet.*

Exhibit 9. Map of California unified districts by level of effectiveness, four-year average of 2004–05 to 2008–09



Note: White areas indicate no unified district is present.

State-Level Policy Changes That Occurred as a Result of Fiscal Crisis

As a result of this unprecedented drop in resources for California's schools, districts, and counties, the state has had to make several changes to state education policy in an attempt to ease the impact on districts and produce a balanced budget each year. Given that these state policy changes could potentially have large effects on district decision-making, before turning to the specific impacts that districts and counties have reported, we outline the key changes mentioned by our respondents.

***Increased funding flexibility*:** One of the biggest changes in state education funding policy that emerged from this budget crisis was increased flexibility for spending state funds. Prior to 2009–10, California had a large number of state categorical program funds (i.e., funds earmarked for specific types of programs or expenditures, such as arts and music, education technology, school libraries, or school safety). Starting in the 2008–09 school year, districts received temporary flexibility (currently set to expire in 2012–13) in 39 of these categorical grant programs.[11] Some of the funds that had historically been provided for a specific program could now be used for any

[11] Flexibility is currently granted through California Education Code (E.C.) 42605. However, the most recent budget, proposed by the Governor in January 2011, would extend this flexibility two years beyond what was previously granted.

educational purpose deemed appropriate by the county, district, or school.

Reduced incentives for smaller classes: Beginning in 1996, believing that smaller class sizes lead to better learning environments for students, California provided financial incentives to districts for all classes with 20 or fewer students in kindergarten through third grade.[12] Starting in 1998, the state added financial incentives to offer smaller classes to high school freshman (20 to 22 students) in certain subjects.[13] In the 2007–08 school year (prior to the fiscal crisis), 98 percent of districts in California participated in the class-size reduction program.[14] As part of the budget compromise, the state relaxed the requirements for receiving class-size reduction funds for the next four years, so that districts can increase class size and not lose funding.

Exhibit 10 shows the changes in the sliding scale that determines a district's class-size reduction allocation. In 2007–08, districts received an extra $1,071 for each student in a K–3 classroom that had, on average, fewer than 20.44 students. The district received a smaller portion of that amount as the class size increased, up to 21.84 students. However, starting in the 2008–09 school year, the criteria changed; now if a class has 25 students or more, the district only loses 30 percent of these funds. Therefore, a district can now receive 70 percent of its class-size reduction program money without reducing class size at all.

Exhibit 10. Changes in California's class size reduction funding requirements[15]

2007–08	
Class Size	**Funding Amount**
Up to 20.44	Full amount ($1,071 per student)
20.45 to 20.94	80% of amount
20.95 to 21.44	60% of amount
21.45 to 21.84	20% of amount
Over 21.85	No CSR funds
2008–09 to 2010–11	
Up to 20.49	Full amount ($1,067 per student)
20.5 to 21.49	95% of amount
21.5 to 22.49	90% of amount
22.5 to 22.99	85% of amount
23 to 24.99	80% of amount
25 or greater	70% of amount

Temporary waiver of requirement to buy new instructional materials: Typically, school districts are required to buy new instructional materials approximately every three years for English language arts, mathematics, science, social science, and bicultural subjects, and approximately every four years for other subjects, to ensure they have the most up-to-date textbooks for their students. This requirement was relaxed; now districts do not need to purchase new materials through the 2013–14 school year.[16]

Reduction of required school days: Prior to the fiscal crisis, California required students to attend school for 180 days per school year.[17] State policymakers relaxed this requirement, allowing school districts to offer five fewer days annually.[18]

***Removal of requirement for district match funds on maintenance projects*:** California provides districts and county offices of education dollar-for-dollar matching funds for both "routine restricted maintenance" and "deferred maintenance programs" for improvements to their existing school buildings (such as roofing, plumbing, heating/air conditioning, and electrical systems).[19] Traditionally, the district or county was required to set aside 1 percent to 3 percent of its general fund for routine maintenance and set aside 0.5 percent of its general fund in a deferred maintenance account to receive a dollar-for-dollar match of state funds. In 2009–10, the state removed this requirement, no longer requiring the district or county to set aside these amounts nor match the state's contribution.

Change in district's financial reserve requirement*:* Prior to the fiscal crisis, districts were required by the state to maintain a certain portion of their funds in a reserve account (between 1 percent and 5 percent depending on the size of the district).[20] In 2009–10, the state reduced this amount by two thirds[21] (e.g., if a district was previously required to maintain 3 percent of its total revenue in reserves, it is now only required to reserve 1 percent).

***Deferral of payments of state funds to districts*:** Districts typically receive their overall allotment of state revenue in portions staggered throughout the school year. The final apportionment is usually sent out to districts in the spring. However, because the state's fiscal year starts in July, in both the 2008–09 and 2009–10 school years the state delayed the final apportionment to the next fiscal year's budget. As a result, districts only receive a portion of the state funds promised to them during a school year.

[12] California E.C. 52120-52128.5.
[13] California E.C. 52080-52090.
[14] California Department of Education. "Final Participation and Funding Data". Retrieved December 10, 2009 from http://www.cde.ca.gov/ls/cs/k3/participationdata.asp.
[15] California E.C. 52124 and 52124.3 and the California Department of Education, Class-Size Reduction, Grades K-3. The 2011–12 Governor's budget proposes to extend this flexibility.
[16] California E.C. 60200.7.
[17] California E.C. 46200.
[18] California E.C. 46201.2
[19] California E.C. 17582-17588 and 17591 through 17592.5.
[20] California E.C. 33128.3.
[21] California E.C. 33128.3. The 2011–12 Governor's budget proposes to extend this lowered minimum.

Budget Cuts: No Line Item Left Unturned

With this picture of such large shifts in education funding policy at the state level and an unprecedented drop in resources, it is no surprise that a majority of respondents reported dramatic reductions in almost every area of their operating budget. Two districts that maintained higher levels of reserves did not face as severe cuts, but even in these districts that maintained higher reserves, there were some cuts, if on a smaller scale.

Interviewees often noted a desire to keep cuts as far from students as possible, but felt that this was no longer possible. As one district's director of business services shared, "The old adage is, 'Keep it away from the classroom.' This year, that adage is thrown out the window. There is no way I can keep it out of the classroom at this point." In this section, therefore, we detail the impacts on district and county education resources during the first two years of the fiscal crisis.[22] Specifically, we share what respondents reported cutting from key areas—staffing, instructional programs, and non-instructional programs—as well as what these cuts mean for the state's education system as a whole.

Cuts in Staffing

Given that the vast majority of district budgets are dedicated to salaries and benefits, large cuts will inevitably focus on staffing. As one district respondent noted, "We are a people business. We hire people for the sole purpose of providing education to kids. When 84 percent to 90 percent of our budget is related to personnel, the only option is to trim personnel."

Staff Layoffs: All five of the districts that made cuts had to cut staffing levels at the school and district level. Four of these districts reported severe cuts to their teaching staff. The fifth district was able to bring all returning staff back by not filling positions opened by retirements and by reducing staff hours. However, this district raised class sizes to 25 students for every teacher to maintain staffing levels. This finding reflects similar results from a study reporting that 62 percent of the 87 principals interviewed reported teacher lay-offs in their schools (Rogers et al., 2010).

Teachers are clearly not the only staff affected by budget cuts. Districts mentioned a variety of school staff that have been cut back—library clerks, instructional aides, special education aides, bilingual tutors, counselors athletic coaches, and so on. Assistant principals appeared especially hard hit in the positions that were removed. The five districts that made cuts reported many layoffs of central office staff, such as translators, human resource personnel, fiscal services personnel, and clerical staff. Additionally, three of the four county offices of education also reported severe cuts to staff, both through the elimination of current positions and through the decision not to fill positions left vacant from retirements.

In short, as one district assistant superintendent noted, "[We] are going to have to learn to work with less and do more…. What took us four people to do, we are now going to have to do with two."

Who We Spoke With

In order to examine how the economic crisis was playing out in school systems across the state, we interviewed administrators at the district and county level, as well as state policymakers. To select our respondents, we used the District Effectiveness Index. After excluding districts with fewer than 3,000 students (as the index is skewed in these smaller districts), we ranked all unified districts in California by this index. We then created a sample of eight districts ranked in the bottom third and top third, grouped within four counties.

We selected the counties to represent different areas across the state, resulting in two counties located in southern California, one in central California, and one in northern California. We then selected eight districts of varying sizes that had at least the average poverty level for the region, as we believed that higher-poverty districts might have been more heavily impacted by the fiscal crisis and we wanted to capture stories located in areas with the greatest need. Our goal was to select one lower-ranked and one higher-ranked district within each of the four counties, but because one of the original districts declined to participate, we ended up with seven districts. Four districts were in the top third of the index and three districts were in the bottom third. The districts ranged in size—three districts had fewer than 10,000 students (from 3,300 to 9,500 students) and four districts had between 20,000 and 42,000 students. The districts also had varying levels of poverty, ranging from 57 percent to 72 percent of students eligible for free or reduced price lunch.

At the district level, we interviewed the district superintendent, or an assistant superintendent or budget officer, or both. At the county level, we interviewed superintendents, assistant superintendents for business or support services, and/or directors of fiscal services. All of these respondents had between 15 and 40 years of experience at various levels within the system.

We also interviewed six policymakers from the California Department of Education, the Governor's office, the State Legislature, and the Legislative Analyst's Office to learn their perspectives on the current policy decisions as well as possible future directions.

[22] Given that our interview sample was comprised of district and county respondents, this section does not reflect perspectives or impacts on charter schools.

Increasing Class Size: With the new ability to expand class sizes without losing class-size reduction funds, all five districts that faced cuts reported increasing class sizes, with class averages ranging from 24 to 28 students in the lower grades for the 2009–10 school year, compared with the previous average of 20 students. Two district superintendents indicated that for the 2010–11 school year, class sizes would increase to 30 students in the lower grades; another remarked that the classes across all grades are "the largest they have ever been." These findings support similar results from a state survey of 387 school districts that found that 35 percent of districts had increased class size in 2010 (California Department of Education, 2010b).

One district also reported that they would be seeking a waiver for the 2011–11 school year for the upper limit of class size (31 for kindergarten, 30 for grades 1 through 3, and 29.9 for grades 4 through 8[23]), as they could not afford to retain teachers to keep class sizes below the maximum level. This appears to be a growing phenomenon; the SBE received no waiver requests between 1999 and 2009, but received 48 requests from July 2009 to August 2010 (Lambert, 2010).

As noted in the first section of this report, prior to the fiscal crisis, California had one of the largest average class sizes in the nation (and had the largest for secondary schools). With many districts now raising their class sizes even more to balance their budgets, it is not clear just how large California classes will get, and how disparate these ratios will become relative to other states.

Cutting Salaries and Benefits: In addition to layoffs, remaining staff in the districts and counties we spoke with faced furlough days, salary freezes, and, in some cases, salary reductions. As one superintendent related, "Status quo is the best that anyone can expect [for their salaries]." One district reported that teachers would experience an 11 percent decrease in their salary for the 2010–11 school year. Three districts instituted furlough days for their teachers, ranging from five to seven days. Two superintendents—one from a district and one from a county—also mentioned furlough days for all central office staff as well. These furlough days translate to fewer staff development days and less preparation time for teachers.[24] Even in the one district reporting that they did not lay off school-level staff, classified staff were reported to have lost their overtime pay.

Three districts and one county also reported attempts to change staff members' benefits—some were approved by the local union, others were not. For instance, one district offered the option of reducing the portion the district pays toward teachers' insurance premiums in exchange for not cutting days or salaries. Ultimately, the local union rejected the proposal, choosing to take staffing cuts instead of paying more for medical benefits. Another district increased the length of time an employee must work in the district before being eligible for lifetime benefits.

Cuts to Instructional Programs, Materials, and Supports

In addition to staffing cuts, districts and counties reported large cuts to almost all types of instructional programs, materials, and supports, detailed below. Even the districts that had larger reserves and were able to avoid cuts to staff had to make reductions in instructional programs and supports.

Shorter School Year: Several respondents said that they were planning to shorten the school year. One district and two county respondents reported that many of the districts in their regions were shortening the school year to 175 days, down from the previously state-mandated 180 days.

Instructional Materials: Six of the seven districts either did not adopt any new instructional materials (due to the state's relaxed requirements on adoptions) or severely cut back their purchases. This finding echoes similar results from a study that reported that 57 percent of the 87 principals interviewed had delayed or cut back scheduled purchases of new textbooks (Rogers et al., 2010). One superintendent noted "[Deferring new textbooks] saves us money, but the students do not have the most up-to-date materials that they need. It does not help educationally, but certainly shifts some of the burden financially."

Educational Programs: There were few educational programs that were left untouched in the districts with whom we spoke. As one county assistant superintendent summarized,

> *Sometimes [our districts] have to cut more of the education program than is appropriate just to maintain our ability to survive… We are getting to the point where we have to cut programs that we know are valuable to the districts.*

Specifically, six of our seven districts and one county mentioned dramatically reducing (or cutting altogether) different summer school programs, with most cuts occurring at the elementary school level. Four district respondents noted that they cut some or all of their after-school programs. Three districts reported heavy cuts in their arts or music programs or both. Other examples of specific programs cut by districts included Advancement Via Individual Determination (AVID), Future Farmers of America, and Junior Reserve Officer Training Corps. Examples of general courses dropped from schedules included high school electives, language development courses, and field trips. Two districts serving high-need communities reported a large drop in participation in Advanced Placement courses, which they attributed to the loss of funds that had previously been used to pay for the test itself (as they do not ask students to pay for the exams themselves). Finally, two counties mentioned cuts to specific programs for students run at the county level, including the regional occupational program (a career and technical education program), child development programs,

[23] E.C. 41376 and 41378.
[24] Executive Order S-16-09.

and alternative education programs (e.g., drop-out recovery programs, juvenile justice education programs).

One of the only program areas reported as untouched was special education—due to the legal entitlement of these students to the full breadth and intensity of services prescribed in their Individualized Education Programs (IEPs).

Professional Development and Supports for Teachers: Five of the seven district respondents and three of the four county respondents noted substantial cuts in the amount of professional development for teachers. This finding is similar to that of a recent study reporting that 70 percent of 87 interviewed principals reported reductions to professional development (Rogers et al., 2010). Citing providing the "bare minimum," "the minimal amount," and "a weaker model," these districts said that their new teacher support programs and their professional development options for teachers had shrunk over the past two years. Indeed, one district had cut their district support services to schools by 50 percent from the previous year. One state policymaker put it plainly: "Districts have decided to put off some professional development activities, which may hurt the development of some teachers in the long term."

Technology: While there were cuts to almost every programmatic and instructional element within districts, one component that seemed immune from cuts in the 2009–10 school year was technology. Due to technology funding from federal and private grants and the federal stimulus funds, only one district reported a cut in technology, slashing their information technology department by 75 percent.

Cuts to Non-instructional Programs

Not surprisingly, given the extensive cuts described above for both staffing and instructional programs and supports, districts also reported heavy cuts to non-instructional programs and supports, including maintenance and facilities, transportation, information technology, and athletics.

Maintenance and Facilities: Six of the seven districts cut back on maintenance of their buildings, whether by cutting back on the use of water and gardeners for landscape maintenance, not repainting buildings, or cutting the number of custodians. As a result, respondents reported, "Our grounds look crummy," "We end up with schools that are not as clean as they need to be," and "There is a slower response time for maintenance to fix things." One district was also concerned about the long-term effects of deferring maintenance, commenting, "It is going to be a time bomb for us [down] the road to maintain our school sites if we leave those cuts [in deferred maintenance dollars] in place for a long time."

Transportation: Of the six districts that offered transportation prior to the fiscal crisis, three had altered the bus routes or cut down on busing in some way. Two districts redesigned bus routes and increased the walking time for students located near the school. The third district was charging students for any athletic transportation if their family could afford the cost.

Athletics: Four district respondents mentioned cuts to their athletic programs. Some simply cut certain competitive sports or reduced the size of the programs. One respondent said they had to cut the adaptive physical education services provided to students with disabilities because the program did not have enough students to justify a full-time position.

Federal Stimulus Funds Lessened Cuts

While the cuts described above seem severe, many respondents reported that the cuts would have been worse without the federal stimulus package—the American Reinvestment and Recovery Act (ARRA)—which provided $9.6 billion to California.[25] One district superintendent said, "If we had not had [the ARRA funds], we would have had to cut even more and would have been upside down. There is no way we could have operated." This sentiment was clearly shared by the others with whom we spoke.

However, ARRA funds were intended for one-time costs that would not create future funding obligations for districts. While the districts we spoke with were aware that the funding would run out in the coming school year, at least two of the districts used the ARRA funds to keep staff, including classroom teachers. These districts foresaw more severe cuts when the stimulus dollars run out.

Districts' Approach to Cuts

With all of these cuts, did districts with different rankings on the District Effectiveness Index approach their decisions differently or make different decisions? With such a small number of districts in our sample, our findings are tentative. However, they raise interesting questions for further investigation.

We found that there was no difference in *what* was cut across the different districts. Whether cutting staff, instructional materials or programs, or non-instructional services, districts scoring high and low on our District Effectiveness Index generally cited similar types of cuts. However, there did appear to be a difference in *how* districts made the decisions about the cuts. The higher-ranked districts detailed for us their clear decision-making approaches, driven either by committee input, evidence-based information, or proactive planning (or some combination of these). The lower-ranked districts were mostly silent on the approaches used and the rationales driving these decisions.

The most obvious example is, as mentioned previously, the fact that two of our districts faced less severe cuts because

[25] Allocations are as of March 2011 according to federal www.recovery.org website. In August 2010, Congress signed the Education Jobs and Medicaid Assistance Act, which allotted California an additional $1.2 billion. Given that the bill passed after our interviews were completed, the effects of this additional source of funding are not reflected in this report.

they were carrying a high level of reserves going into the fiscal crisis. Interestingly, one district—ranked high on our District Effectiveness Index—maintained a much higher reserve than is typical, at the request of the local school board. Compared with the average 3 percent reserve that most districts their size carry, this district carried a reserve of at least 10 percent (and often higher). Going into the fiscal crisis, they had a 15 percent reserve. This higher reserve was expressly maintained to avoid issues when "economic hiccups," as the budget director called them, occur in California. The other district—ranked low on our District Effectiveness Index—discovered as they entered the fiscal crisis that they had been carrying a 25 percent reserve "by accident." With frequent changes in business officers, the district's budgets had not been reviewed carefully for several years.

Other examples of differences between districts with different rankings on the District Effectiveness Index were found when discussing the districts' approach to cuts. In one higher-ranking district, the district conducted an analysis of the impacts of previous staffing decisions to determine what layoffs had had the least impact on students. For example, this district had cut all vice principals across the district in the first year of the budget crisis. Upon reviewing the data, the district found that there was an increase in discipline issues in the junior high schools and so added the vice principal positions back into those schools. This district also contracted with an external consultant to determine whether the central office could become more efficient. "It cost [money] and it was at a time when we were cutting jobs, but we like to make fact-based decisions," noted the superintendent. (The consultant reported that the central office staff was already lean, and so there were no further reductions in staff at the district level.)

In comparison to this district, a lower-ranked district mentioned that their approach to staffing cuts was simply to cut all positions by the same salary percentage rather than prioritizing cuts or positions.

Aside from their data-based approached to staffing decisions, one higher-ranked district also analyzed academic outcomes for students who had attended summer schools in previous years; they found that middle school students attending summer school for English showed no noticeable improvement the next year but that middle school students who attended summer school for math *did* show improvement. Therefore, they cut the summer school program for English but retained the math summer school program. "When we prioritized our dollars, we put them towards something that we do well," noted the superintendent.

As another example of how the districts varied by their effectiveness ranking, respondents from three of the four higher-ranked districts (and none of the lower-ranked districts) said that, prior to the fiscal crisis, the district already purposefully maintained very lean levels of staffing and materials. "We are running things so tightly [already]," according to one superintendent, "because we watch everything that is being spent to make sure it is something we have to do." This district's philosophy was to cut hours and days, not jobs, because they felt they had already trimmed down their staff to the core jobs.

Again, with only seven districts to compare in this area, these findings are far from definitive. A much deeper investigation is needed to determine how useful the Index is in identifying more and less effective districts and if there are important differences in operating procedures between the two.

Statewide Effects

Going beyond individual stories, we also heard common themes with statewide implications for the education system regarding the fiscal health of districts, the relationship between districts and their unions, and the overall morale of those in the education system.

Fiscal Solvency of Districts: Eight respondents across all three levels of the system expressed concern about the fiscal health of districts as a result of both the stark decline in overall resources and the new accounting practices that allow a lower level of reserves.

School districts are required to provide audited statements that demonstrate their financial health, resulting in a rating of "positive" (if the district can meet its obligations for the next three years), "qualified" (if the district may not be able to meet its obligations in that time), or "negative" (if the district will be unable to meet its obligations in that time). When a district falls into "qualified" or "negative" status, the district may lose its ability to receive certain loans and must work with the state's Fiscal Crisis and Management Assistance Team to regain fiscal solvency. Additionally, the county office of education can rescind any financial decisions made by the locally elected board until the district's budget is balanced.

One district we spoke with had already filed a "qualified" financial statement, and believed that many more schools districts "are heading toward the path of insolvency." County respondents mentioned seeing an increase in the number of their districts rated "negative" or "qualified." In one county, 10 of the 23 school districts were rated "qualified" in 2010. Indeed, the California Department of Education indicated that 38 percent more districts in 2010 (up from 126 to 174 in less than one year) were filing with "qualified" or "negative" status (California Department of Education, 2010c).

Five county and state-level respondents indicated that this increase in districts struggling to maintain solvency was not just because of the sharp decline in overall resources but also because the state was deferring payments (see page 10). This "unprecedented" and "scary" maneuver by the state to balance the state budget has left many districts struggling for cash. One county respondent noted that instead of the $48 million they were supposed to receive in the final apportionment of the year, they received $700,000, with the promise of the full payment in July. Another county assistant superintendent estimated that a

majority of the county's districts were turning to Tax Revenue Anticipation Notes (TRANs) to cover the cash shortfall, in essence borrowing money to cover their costs. TRANs are short-term, interest-accruing loans that school districts can use to address a cash flow problem, but with costs to the district.

According to a few county and state policymakers, the lowered level of minimum reserves that districts must carry (see page 10) may aggravate this issue in the coming years. As one state policymaker reported, changes in district reserve requirements only "gets them closer to the brink and lets them postpone hard decisions longer."

If the number of districts demonstrating fiscal insolvency continues to rise, it is unclear what counties and the state will do. As one state policymaker related, "The state is broke, so no one knows what will happen when that occurs."

***Relationship With Unions*:** Relationships with education unions, both at the local level and the state level, have also been affected by the state's fiscal crisis, according to respondents. Both district and county administrators reported mixed results of the budget cuts on their relationship with the union.

Three districts and one county noted disagreements that made the relationship with local unions "strained" and "difficult," or "at an impasse." As one superintendent shared, "If there were any ill feelings before, they have become magnified because of the tense environment created by all of this." Specifically, one district superintendent felt that the cuts being made to conform to existing collective bargaining agreements were frustrating: "[We are] impacting the quality of what we are doing for students to save teachers' salaries…. I do not want to have to keep cutting my youngest, brightest, and energetic teachers just so I can keep salaries and benefits the same for other teachers." Three state policymakers also felt that relations with the state-level union had become more strained during the fiscal crisis.

However, two district respondents and two county respondents said that the relationship with their union has remained the same or even improved. For instance, one district superintendent reported that "the fiscal crisis is something that brought people to the table…. As a result, we have been able to renegotiate terms [of the contract] that would not have been possible before."

Lowered Morale: Given the large number of layoffs and the general need to do more with less, not surprisingly, another common theme heard from respondents was a decline in the morale of school staff. Discussing the large number of layoffs, one state policymaker summed it up by saying, "I am hearing about the psychological devastation [for school staff]." Additionally, two respondents remarked that the large cuts to education programs had led to tensions with the school board or with community groups.

Is There A Silver Lining In Any of This?

Are there any positives in the midst of these massive cuts? In fact, we heard about a few bright spots in the midst of the difficulty. While these were not reported as making the crisis easy to endure, they were reported as helpful and may provide insights into prospective longer-term improvements.

Universal Embrace of Increased Funding Flexibility

California is known for its increasingly large number of state categorical program funds restricted for specific use at district and school levels. Indeed, California has more categorical programs than any other state in the country (Hassel & Roza, 2007). Districts in California can receive funds from as many as 220 state and federal categorical programs, up from just 57 state categorical programs in 1993 (Timar, 2006). Such a large number of categorical program funds can reduce spending coherence, create complex and onerous budget management requirements, and apply a "one size fits all" approach to school systems with different needs.

As previously described, the state has temporarily allowed districts to spend approximately 39 state categorical program funds as part of the general fund, therefore removing the restrictions on how these monies can be spent. This move was very well received by all respondents. "It pushed the door open on categorical reform. Everyone thought that we had far too many categorical [funds] so it has… provided a wonderful opportunity to start over," according to one state policymaker. A county superintendent argued, "There cannot be a silver lining, but if there is a gray lining to this storm, it is that there has been some recognition of the need for local control. Allowing school districts, school boards, and superintendents to use state funds as their districts see the need to use those funds… is a very good thing."

Six of the seven districts, two of the four counties, and all six state policymakers felt that this flexibility allowed districts to budget more effectively during the fiscal crisis. We heard comments like, "It is the one really good thing that came out of this;" "It has been beneficial and helped us survive this year…. It is what we have cried for in California for years;" and "We would not have solvent districts without that flexibility." One county respondent also noted that the flexibility saved precious time and resources by eliminating compliance-related paperwork.

However, even with strong sentiment in favor of enhanced flexibility, some respondents felt frustrated that this change came about when there is little funding to actually use it creatively. One district superintendent felt that "the flexibility was absolutely critical, but… it came at the same time that we have these cuts, so we did not see the benefit of the flexibility." Another superintendent said, "Even though it has helped us through this crisis… it is not as if we were left with choices on how we would like to spend that money,

which is what I think most people who think about funding reform would have hoped would happen." Along these lines, a county superintendent shared his belief that, "When things are bad, Sacramento likes to pass the buck to the local authorities, and when times are good, they would rather direct us how to operate."

Interestingly, one of the greatest fears for opponents of this flexibility was that specific groups of students with greater need would be negatively affected. However, respondents provided little indication that this had happened, in part because funding for special populations such as English learners and students with disabilities has been protected.

Streamlining and Efficiency

The current fiscal environment in California, as reported by respondents, has also provided an opportunity for a certain "housecleaning" of their budgets, to allow for a more efficient and streamlined approach to their work.

Cutting Ineffective Programs

Four districts specifically mentioned reviewing their priorities and cutting programs that were less effective or useful. For instance, one district respondent said that the programs traditionally kept because they provided state dollars will now have to prove that they are necessary and effective for student learning: "Now [a class created by a state categorical program] has to compete with other electives. If a class is good enough, people will want to go. The good survive and the bad go." Another district shared that the fiscal crisis has "forced us to truly look at where we can be more efficient in time, energy, and dollars…. This has forced us to truly look at how we do things and realize there is a better way to do things." To this end, this district is reviewing their job descriptions to understand how to better utilize employees. Another district respondent reported a previous desire to reduce the number of sites providing summer school but meeting with resistance. With this new focus on savings, the district was able to make the change.

The majority of respondents were quick to point out, however, that finding efficiencies does not offset the negative impacts on instructional programs. As one district superintendent summed up the situation, "I liken it to an obese person who cuts back and gets back to a fit level. Then they keep cutting and become anorexic, which is equally unhealthy."

Energy Efficiency

In addition to streamlining their instructional programs at the district level and support services at the county level, we heard one district and two county respondents share their plans for increasing energy efficiency in their district as another way to reduce cuts and streamline operations. These offices anticipated that putting thermostats in portable classrooms to better control temperature, investing in more energy-efficient air conditioning, and investigating new solar projects would reduce costs in the future.

Changing the "Way We Do Business"… Sort Of

All four county respondents shared examples of how they are changing their organizational structure, approach to services, or other ways in which they have traditionally done their work. For instance, three counties put more of their professional development courses online, reducing the cost for school districts and for county staff. Additionally, two county respondents mentioned that they are looking at restructuring their divisions to better provide services to classroom teachers. One county superintendent said that the county is "reorganizing to be more efficient, as we are paring down staff and are trying to figure out what is the most important [services] to maintain." Another county is looking to share services across other county offices of education in order to take advantage of economies of scale.

Aside from these comments from counties, however, we did not hear much about districts dramatically changing their structures to become more efficient in budget crises. One state policymaker wanted, for example, to see smaller districts with just a handful of schools consider merging into larger districts to share costs. Or, because districts face similar costs for data systems and information technology, instead of merging altogether, districts could pursue shared services to reduce efficiency and learn from each other. At least among the districts we spoke with, however, we did not hear of shared resources across districts.

Implications for State Policy: Recommendations From the Field

What do the stories of these practitioners mean for state policy? Below we summarize recommendations heard during our conversations with local and state practitioners and policymakers. Many of these recommendations echo previous findings from other reports prior to the fiscal crisis. The resiliency of these themes seems to speak to the need for these reforms, especially now that districts are faced with the challenge of producing better outcomes with even fewer resources.

Recommendation #1: Stabilize and Increase Education Funding

Practitioners and policymakers who we interviewed mentioned various opinions as to why the state's approach to funding education is flawed. Some blamed previous court cases and voter propositions, which have led to an education system that is almost solely funded by the state. "Why do we choose to fund a service that is constant and growing with revenues that are cyclical and variable?" asks a county superintendent, noting that "as long as we are tied to personal income tax and sales tax and capital gains, there are going to be peaks and valleys." Others felt that the drop in the small amount of money provided by property taxes at the local level was exacerbated by large drops in the state's tax base from the national recession. One respondent felt that one of the main issues is that Proposition 98 (the state's main source of funding for schools), which was originally intended to be a minimum floor for education funding, now serves as a ceiling. Still others blamed the politics at the state level, calling out the

"dysfunctional system in Sacramento," with its "extreme representation" that leads to a "lack of willingness to work together."

While those we interviewed may not agree on how the state got into the current situation, but they do agree on two clear needs moving forward: a need to both *stabilize* and *increase* the funding levels. Stabilization, according to respondents, would allow for better planning. As one assistant superintendent noted, "One of the frustrating parts of my business is the rollercoaster [ride]; there seems to be no consistency from one year to the next."

Increasing funding would put California more on par with what other states spend on education. However, respondents felt that simply increasing funding is not enough. One state policy maker explained that "we are not good at spending the dollars that we have now, but if you just give us a few more dollars, it just sort of folds into the insanity… You need to think about it really differently in order to move to the future in a meaningful way."

Recommendation #2: Make Funding Flexibility Permanent

The budget crisis opened the door for the increased funding flexibility for districts that many had been demanding for years. This temporary flexibility was received with open arms by practitioners; however, this flexibility is only granted to districts for class-size reduction funds through 2011 and for the other 39 state categorical funds through 2013 (although the Governor has proposed to extend this flexibility through two more school years). A clear recommendation—heard from all but one of our respondents—was to make this funding flexibility permanent.

Respondents are demanding ongoing flexibility of state funds for several reasons. First, this flexibility allows greater local control in funding an educational program aligned to that district and school's goals and context. As one district superintendent shared, "At some point, California should recognize that instead of siloing all of these programs, they should let the local constituencies make decisions on what best serves their students and student learning in the school district." Three respondents noted that while these arguments have been made for years, the current flexibility was not granted until there was such a severe crisis that the state wanted to push the decisions on what to cut to districts. Increased flexibility in stronger economic times would allow schools, districts, and counties to demonstrate how they would approach designing their education programs without the pressures of the current fiscal crisis.

Second, in the immediate future, if the flexibility is taken away, districts will be faced with moving these restricted funds from their general fund back to specific programs, leaving them with another large hole in their general fund just as the state may be emerging from a decline in resources. As one district superintendent shared, "If the flexibility does not continue, we will have to go back to using the money for the categorical programs, which will mean a massive hit on our general funds…. It is unfathomable how we would survive if the state were not to continue flexible funding."

Finally, in addition to maintaining flexibility on the current 39 state categorical programs, respondents argued for additional flexibility of other specific program funds. For instance, one district felt that Proposition 49 funding, which is dedicated to after-school programs, should be made flexible. As she noted, "Why protect after-school funding while we cut the school year?" A state policymaker pointed out that certain career technical education (CTE) programs were granted flexibility while others were not, and recommended that all CTE programs be left to the discretion of the district.

Recommendation #3: Reform the Current Budgeting Process to Lessen the Burden on Districts

The state broke records in 2010 for the amount of time spent in the new fiscal year without a state budget; therefore it is no surprise that respondents reported that California's budgeting process makes planning for each school year incredibly difficult. Respondents gave the following recommendations for lessening the planning and budgeting burden on districts.

Halt the Practice of Deferring Payments to School Districts

While the state clearly faces many tough decisions in addressing a large deficit, delaying payments to school districts is clearly detrimental to effective budgeting and planning. The deferral of state payments to districts has forced many districts to take out loans to pay their bills while waiting for state revenues. Simply put by one county superintendent, "In effect, the state has pushed its cash flow problem down to school districts, and school districts are bearing the cost of financing." As one respondent noted, the problem goes even further—by allowing deferrals to continue, the true size of the state deficit is masked and the state pushes tough decisions to the next year. Therefore, respondents repeatedly urged that the state pass legislation to halt the practice of deferring payments to districts.

Simplify State Funding Formula

Another recommendation heard repeatedly from respondents was to simplify the state funding formula so that practitioners can better understand where the money is coming from and how much they will receive. Currently, determining the amount of funding for Proposition 98 funding—the largest portion of state revenue for education—is very difficult. As one county superintendent noted, "The notion that you can cut education funding by $10 billion and still claim that [Proposition 98] is still fully funded is always interesting." A state policymaker said, "It is very hard to get a clear picture at the state level because there are a lot of games and accounting tricks to make it seem like they are not making cuts when they really are." A county respondent backed up this sentiment, noting, "What we need now more than ever is transparency in how we fund our programs. I think about four or five people in the

state truly understand Proposition 98's formula and manipulations."

Better Align Layoff Notification Date with State Budget Cycle

State law currently requires that districts provide initial notices to all staff they may need to lay off in the next school year by March 15th, with final termination decisions made by May 15th. But, when the state passes the budget for the new fiscal year (in theory by July 1st), the district must return to re-budgeting and re-planning. The misalignment between the budgeting cycle and the layoff notification cycle means that, to be on the safe side, many more staff are served with layoff notices than are eventually laid off. One district suggested that layoff notices only be required when a state budget is approved. Another respondent suggested that the date just be moved out to the end of the school year. Whatever the timeframe, several respondents requested that the layoff notification schedule be better aligned with the timeline of the budgeting and planning process.

Recommendation #4: Change State Regulations on Seniority That Hamper Local Decisions on Staffing.

Changes in California education policy during the fiscal crisis have been more incremental than dramatic. Generally, there has been relatively little discussion of education reform in Sacramento over the past few years because, without funding, most education reform bills do not reach the floor for debate. However, respondents noted that tough economic times actually provide a unique opportunity for more substantial change to be considered. As an example of the type of reform that seems especially timely, the majority of respondents urged the state to change the education code provisions on seniority to ensure more local control over staffing decisions.

District practitioners and state policymakers alike felt that the seniority provisions in the state education code tie their hands, by determining the criteria to be used for the majority of the staffing decisions forced upon them during this time of severe cuts. The state education code ensures that tenured staff cannot be laid off before probationary staff.[26] As one district administrator noted, "Because of the education code, we are getting rid of our youngest and brightest teachers." Respondents felt that by removing this provision from the state's education code, districts could negotiate with their local union to reach an agreement.

Additionally, a few respondents also hoped to see a change in the state's education code regarding substitute teachers. Currently, state law requires that permanent teachers that have been laid off be given first call back as a substitute teacher and, if they remain after 20 days, must be compensated according to their previous salary rate.[27] This means that districts that lay off teachers and then bring on substitutes do not see savings in their budget. These respondents wanted to see the provision removed from the state's education code so that the issue could be bargained locally.

One state policymaker summed up this sentiment: "There are a lot of things that we have in the state law that tie districts' hands," preventing the districts from having "full room to negotiate."

Conclusion

The California Legislature is currently taking up a new budget, looking to balance another large deficit as many other states also tackle issues associated with reduced revenues. The issues presented in this report are relevant to policymakers as they consider California's ongoing budget decisions. This report also provides a baseline description of K–12 education in California during the initial years of what appears to be a period of protracted fiscal challenges.

As shown in the first section of the report, we found California to be near the bottom in education resources prior to the fiscal crisis. At the same time, adjusted for student characteristics, California appears fairly productive relative to other states in producing academic results. Thus, the education system appears to have been among the leanest across the states before the current wave of substantial cuts.

With this picture in mind, we interviewed district and county practitioners as well as state policymakers in an attempt to gain baseline information about how K–12 education in California was coping with, reacting to, and planning for what appears to be a continuing bleak fiscal outlook. We heard of severe cuts in almost every area of the education system, as well as some important changes in state policy to cope with the crisis, such as giving much more funding flexibility to districts. We also heard that tough times like these provide not just extreme challenges but also opportunities, including windows to address long-term inefficiencies at the district level and long-standing impediments to reform at the state level.

In this era of fiscal constraint, education policymakers must invest every available dollar as wisely as possible. Given the education spending patterns established over the past several decades, it seems unlikely that, even after economic recovery, California schools will have the resources enjoyed by students in other states. Thus, it is now and will continue to be imperative to be able to identify, learn from, and share cost- effective strategies in districts so our schools will be as well equipped as possible to fully prepare students for success in college and careers.

[26] California E.C. 44955.
[27] California E.C. 44956.

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Appendix A: Description of the District Effectiveness Index

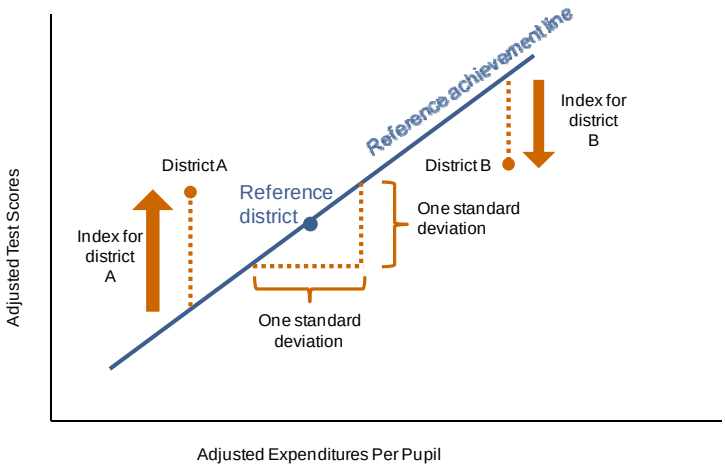
Expenditures per pupil are defined, using California's Standardized Accounting Code (SACS) database, as the total district expenditure divided by total enrollment. The expenditure data include district spending from all funds. Some may argue that expenditures per pupil should only take into account district spending from the General Fund Past research, however, has determined that the General Fund only accounts for approximately 70 percent of all district spending (Loeb, Grissom, & Strunk, 2007). As a result, we decided to include spending from all funds, so as to obtain a more accurate picture of the full variation in spending across districts. For this, we used SACS object codes 1000-7999. For the total district enrollment, we used the School Information Form from the California Basic Educational Data System (CBEDS).

The expenditures per pupil measure includes such major categories of spending as personnel salaries, employee benefits, books and supplies, district services and operations, and capital outlay. Including capital outlay can cause spikes in spending for some districts, as some districts may invest in large capital costs in one year. However, one could argue that capital expenditures are an important input into students' education, as large capital expenses such as buildings can affect a student's learning environment. In order to avoid the issue or one-time capital expenditures that might skew a district's expenditure per pupil amount, we use a four-year average to smooth the effects of spikes due to capital outlays. Using the specification for total funds as described in Loeb et al. (2007), we deducted the following categories from total district expenditures to avoid double-counting expenditures that are accounted for elsewhere: (1) tuition; (2) transfers to other districts; (3) transfers to charters in lieu of property taxes; (4) inter-fund transfers; and (5) transfers to county offices of education. Because costs vary across districts and across time, we adjust expenditures per pupil using the CWI, similar to the method used in examining the cross-state comparisons of expenditures per pupil.

Academic achievement is measured using scores from the English/language arts (ELA) and math CST. First, to take into account school-level characteristics that measure the differing needs of a district's students, we constructed a district measure of academic achievement, controlling for school-level characteristics (i.e., minority subgroups, English learners, students with disabilities, and students eligible for free or reduced-price lunch). This district achievement measure indicates the degree to which the schools in a particular district are collectively performing above or below the predicted level given the characteristics of the students they serve.

The process of calculating the VAI requires several steps. First, because CST scores are not vertically equated and are not comparable across grades, the scores are standardized within grade and year, before being added together to produce school scores. Next, a school-level regression analysis is performed to adjust for school-level characteristics. In these analyses, a district indicator is included to measure the difference between districts' actual and expected achievement. Finally, we average the district ELA and the math CST and then create a four-year average to create the overall academic index for a district.

Exhibit A-1. Illustration of the Effectiveness Index



We then constructed an effectiveness index to compare a district's achievement to the resources available to produce that achievement level. The index for every district combines the distance in actual performance in relation to predicted performance (measured in standard deviations) and actual spending in relation to the average (also measured in standard deviations). An effectiveness index is generated separately for each year, and then for these analysis combined into a four-year average. This reduces the impact of one-year aberrations and helps identify districts that truly stand out.

As shown in Exhibit A-1, the reference point for our index is a hypothetical district with average cost-adjusted expenditures per pupil and average need-

adjusted test scores. From this point, we create a “reference achievement line,” where if a district shows an expenditure that is one standard deviation above the average then that district is also expected to have achievement that is one standard deviation higher. This creates a line hypothesizing the test score for each level of expenditure. We set the index of the reference point, and all points on the reference line, to zero. The effectiveness index number for a district is equal to the vertical distance of that district to the reference line. For instance, if a district has need-adjusted test scores above the reference line (District A), the index will be positive. If a district has cost-adjusted test scores below the reference line (District B), the index will be negative.