

Foreword

California has recently adopted some of the toughest standards in the nation for its students in K–12 schools. That move reflects a deep concern that has made residents continually rank schools and education at the top of critical issues facing the state. Despite that concern, over the last two decades, California has consistently fallen below the national average in resources invested per student in its schools. Also despite that concern, in recent years, voters have passed more statewide initiatives to limit taxes and fees than to increase spending for schools or other public services. What explains these inconsistencies, are they irreconcilable, and will they put the standards hopelessly out of reach? More pragmatically, given the current economic downturn and state budget crisis, is there any way that the state could find the resources necessary to bring its students up to those rigorous standards?

The assumption behind that last question begs a larger one: Is there truly—not just intuitively—a causal relationship between school resources and student outcomes? That is certainly the assumption behind all the angst over California’s relative rank in spending among the states. It was the basic assumption behind *Serrano* and other school finance reforms. But is it necessarily true that if we would just spend more, or that if every school had the same higher level and kinds of resources, no child would be left behind?

Suppose we stopped assuming that more is necessarily magical and could establish what schools actually need to provide the education that could bring their students up to the standards. In *High Expectations, Modest Means: The Challenge Facing California’s Public Schools*, authors Heather Rose, Jon Sonstelie, Ray Reinhard, and Sharmaine Heng present the first of three studies aimed at helping the state develop prototypes that would specify what it would take and what it would cost for the schools to do that.

This first study provides an overview of the K–12 finance system, analyzing the policies to increase available funds as well as those constraining how the money can be used. In simple terms, California lags the national average in per student spending, and efforts to lock in more spending have tended to set a floor rather than provide real increases. Even the massive investment in class size reduction caused only a minor increase in overall per pupil spending—and most of the additional revenue went to the primary grades, leaving other programs below the pre-recession levels of the early 1990s.

The information these three studies provide will be especially useful for the state’s Quality Education Commission, which is scheduled to begin its work in late 2003. The commission’s purpose is to specify the school resources that would allow the vast majority of California’s students to meet the state’s academic performance standards. The commission is required to present the legislature with a cost estimate of meeting the standards adopted by the State Board of Education. To inform that estimate, the PPIC research team has developed a bottom-up approach that is based upon actual school costs instead of an extrapolation of past revenue levels. Given the state’s scarce school resources, it is our hope that the itemized school budgets will illuminate potential trade-offs between existing (mostly uncoordinated) spending programs.

PPIC is grateful to the William and Flora Hewlett Foundation for providing a grant to make this three-volume study possible.

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Summary

California has some of the highest academic standards in the nation for its K–12 students. Yet, over the last two decades, it has consistently ranked well below the national average in resources per student. This report is the first in a series of three studies, funded by the William and Flora Hewlett Foundation, designed to examine the links among school costs, resources, and student outcomes in California. This first report provides background information on the state’s academic standards, resources, and funding mechanisms. Subsequent reports will present the findings of interviews and site visits at representative schools throughout the state as well as the results of school budget simulations conducted with the principals of those schools. Together, these studies will provide conceptual tools that would allow state policymakers to determine how much revenue schools might need to educate students to meet state standards.

California has high expectations for its public schools. Between 1995 and 1998, the state developed academic content standards for those schools, specifying what students should learn in every grade. The Fordham Foundation, one of the nation’s leading proponents of rigorous academic standards, has rated California’s standards as the best in the nation.

The state also expects its students to perform well on standardized tests. Every year since 1999, the state has assigned an Academic Performance Index (API) to individual schools based on the performance of their students on a battery of tests. The index ranges from 200 to 1000. For all schools, the goal is an API of 800, a high level of performance. An 800 API is equivalent to 70 percent of a school’s student body exceeding the median performance of students throughout the country.

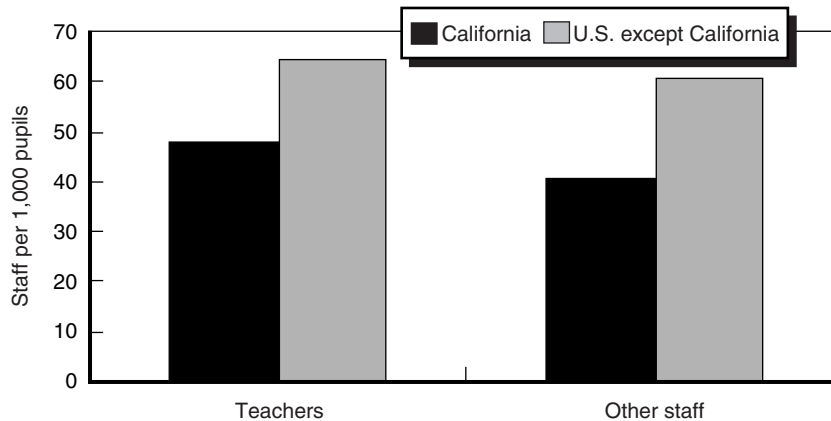
Most California schools have improved their APIs since 1999. Yet, few schools at any level exceed the 800 goal. Elementary schools have

done the best, but only 20 percent of those schools exceeded 800 in 2002.

Despite the high expectations for them, California schools have relatively modest resources. Figure S.1 compares the number of teachers per pupil in California to the aggregate number of all other states. California has 25 percent fewer teachers per pupil. As the figure also shows, the same pattern holds for other public school staff.

Public schools also purchase a variety of supplies and services. California public schools spend less per pupil in this area than do schools in other states. For 1999–2000, California schools spent 14 percent less per pupil than schools in the rest of the country.

The modest resources of California schools are due to two primary factors: high salaries and low budgets. Most staff positions in public schools require a college degree. In occupations requiring a college degree, employees in California earned a salary in 2000 that was 14 percent higher on average than that of similar employees in the rest of the country. This premium is reflected in the salaries for teachers. In 2000, California teachers earned an average annual salary that was 16 percent higher than the average for teachers in other states.



NOTE: See Table 3.3 for more details.

Figure S.1—Public School Staffing per 1,000 Pupils, 1999–2000

Although California schools face higher salaries for their employees, their budgets are lower than those of schools in other states. In 1999–2000, California schools spent about 9 percent less per pupil than schools in other states. The combination of lower budgets and higher salaries implies fewer resources for California schools.

California's low public school spending is not the byproduct of generally low government spending in the state. Despite Proposition 13 and other limitations, state and local government spending in California is in line with spending in other states. In 1999–2000, state and local government spending per capita in California exceeded the average of all other states by 9 percent. As a fraction of personal income, California spending was approximately equal to the spending of other states.

How did a relatively high level of total government spending per capita become a relatively low level of public school spending per pupil? There are two reasons. First, public school spending was a lower share of total government spending in California than in other states. In California that share was 22 percent; in the rest of the country the share was 25 percent. As a result, while California governments spent 9 percent more per capita than did governments in other states, California schools spent 2 percent less per capita. Second, California had 8 percent more pupils per capita than other states. With 2 percent less spending per capita and 8 percent more pupils per capita, California schools had 9 percent less spending per pupil.

California's relatively low spending per pupil is surprising in light of Proposition 98, the 1988 constitutional amendment establishing a minimum guarantee for public school revenue. Since the proposition was enacted, however, spending per pupil has fallen in California relative to that in other states. Observing that trend, some have concluded that Proposition 98 has tended to act as a ceiling for public school revenue instead of a floor. Although that is certainly possible, California's growth in public school revenue was affected by two other factors. The first was the recession of the early 1990s, which had a larger effect on state and local revenue in California than in other states. In real terms, state and local revenue per capita declined about 10 percent in California from 1989–1990 to 1993–1994. In contrast, this revenue in other states

declined slightly from 1989–1990 to 1990–1991 but then resumed its positive growth. The second factor is the rise in the number of pupils per capita in California. During the 1990s, other states experienced a less significant increase than did California.

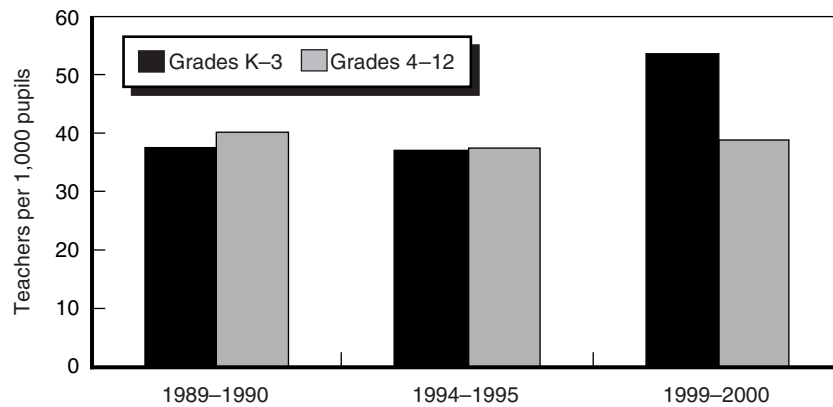
Because of these two factors, it is not clear that Proposition 98 acted as a ceiling on public school revenue during the 1990s. Yes, revenue of California schools did not rise significantly over the minimum required by Proposition 98, and California schools lost ground to schools in other states. However, unlike other states, California experienced a decline in real tax revenue per capita in the first half of the 1990s and a rise in the number of pupils per capita in the second half of the decade. Both factors worked to dampen the demand for public school spending. It is doubtful that California schools would have fared any better without Proposition 98.

The proposition has had an unfortunate consequence, however. It has focused the attention of the Legislature on providing enough revenue to satisfy the Proposition 98 guarantee, which is essentially the 1986–1987 funding level adjusted for the growth in personal income per capita. Proposition 98 has created an artificial goal for school revenue. As a result, attention has been diverted from a much more important and fundamental question: How much funding do schools need to ensure that students are able to master the state’s academic content and performance standards?

The funding problems of California schools are aggravated by restrictions on the use of funds, which may diminish the effectiveness of the revenue schools do receive. An example is K–3 Class Size Reduction (CSR), the 1996 initiative to reduce class sizes to 20 students in kindergarten through third grade. CSR came just as California public schools were beginning to recover from the recession of the early 1990s. In the first half of the 1990s, real revenue per pupil fell by 10 percent, and school districts reduced real spending per pupil in almost every category. In the second half of the decade, real spending per pupil rose just over 20 percent, but CSR directed much of that additional revenue to the primary grades.

As Figure S.2 shows, teacher-pupil ratios declined in all grade levels in the first half of the 1990s.¹ In the second half of the 1990s, the overall teacher-pupil ratio rose, but the rise resulted almost entirely from the dramatic increase in the K–3 ratio. Other grades saw little change. In grades 4 through 12, the 1999–2000 ratios were lower than in 1989–1990. Real spending per pupil on pupil service personnel, maintenance and operations, and transportation was also lower in 1999–2000 than in 1989–1990. In that sense, despite the increase in public school revenue in the latter half of the 1990s, California schools have not yet recovered from the recession of the early 1990s. Additional revenue has been channeled into the primary grades, leaving other areas below pre-recession levels.

CSR raises the issue of the efficient allocation of public revenue. Would schools have produced better overall results if they could have allocated more resources to upper grades and less to lower grades? A similar issue arises concerning the allocation of revenue across school districts. As Figure S.3 illustrates, there is a strong, negative relationship between an elementary school’s API and the percentage of its students



NOTE: See Table 6.4 for more details.

Figure S.2—Public School Teachers per 1,000 Pupils

¹Figure S.2 excludes special education teachers.

