

SUMMARY

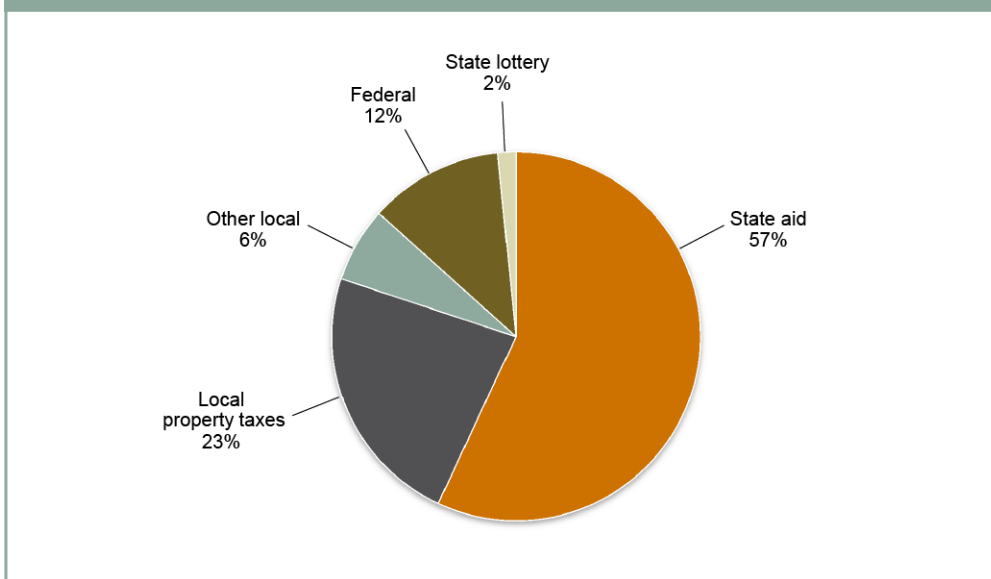
There is broad consensus that California's school finance system is inequitable, inadequate, and overly complex. In response to these critiques, this year Governor Jerry Brown proposed an overhaul of our school finance system. Also, two initiatives on the November ballot asked voters to increase education funding through tax increases: voters approved Proposition 30, which was integral to the governor's budget plan, and rejected Proposition 38, a citizens' initiative.

Despite the passage of Proposition 30, California faces many school finance challenges. This report provides an overview of the state's school finance system and outlines some longstanding school finance issues that may be in play next year.

THE EVOLUTION OF CALIFORNIA'S SCHOOL FINANCE SYSTEM

An informed assessment of the current school finance system should begin by examining how it has evolved. California school districts receive funding from three main sources: the state (which provides the majority of funds), property taxes and other local sources, and the federal government (Figure 1). However, for most of their history, school districts financed their operations through local property taxes and received supplemental aid from the state and federal governments. Basing school budgets on local revenues created large differences in per pupil funding because of varying property values and tax rates. In 1971, the California Supreme Court ruled that this system was unconstitutional and ordered the state to equalize funding across districts.¹ In response, the state created a ceiling on revenue per pupil for each district that would be equalized over time.

FIGURE 1. THE STATE IS THE MAIN SOURCE OF K-12 FUNDING IN CALIFORNIA



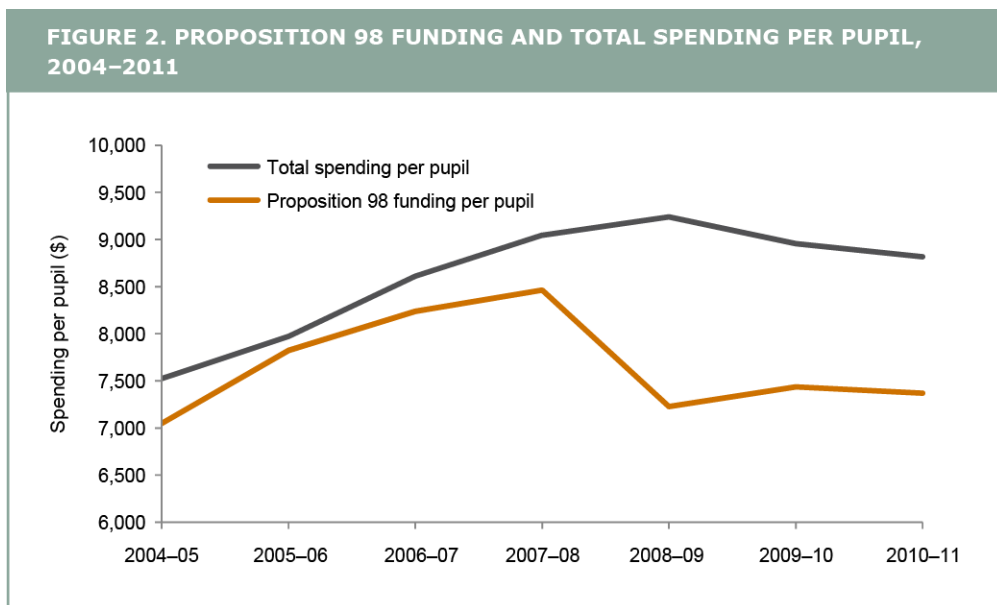
SOURCE: Education Data Partnership, 2010–11 Financial Reports for State.

NOTES: The exact percentage of funds from each source varies each year, but the overall distribution has held steady for more than a decade.

Then, in 1978, voters passed Proposition 13, which created a statewide property tax rate set at 1 percent of assessed value and limited annual increases in assessed value. To offset the resulting loss of property tax revenue, the state increased its support, shifting the responsibility for funding schools away from local districts. Today, California is one of 19 state governments that provide the majority of public school funding. Nationally, roughly 44 percent of school funding comes from state and local sources and 12 percent comes from the federal government.²

The main driver of state revenues for California schools is Proposition 98, a 1988 initiative that set a minimum state spending level for K–12 school and community colleges at roughly 40 percent of the state’s general fund.³

Proposition 98 takes state economic conditions into account, so the steep budget cuts during the Great Recession reduced Proposition 98 K–12 funding per pupil by almost 15 percent from its 2007–08 peak (even more after adjusting for inflation). And because of the slow recovery this funding has remained relatively flat since 2008–09 (Figure 2). School districts have been able to respond to sharp state funding cuts gradually by dipping into reserve funds and using more than \$4 billion in federal stimulus funds that expired after 2010–11.⁴ As a result, total spending per pupil in 2010–11 was about 5 percent below its 2008–09 peak, and LAO surveys indicate that districts have made additional cuts since then.⁵



SOURCE: CalEdFacts, California Department of Education, Education Data Partnership, 2004–05 through 2011–12 Financial Reports for State—School Districts.

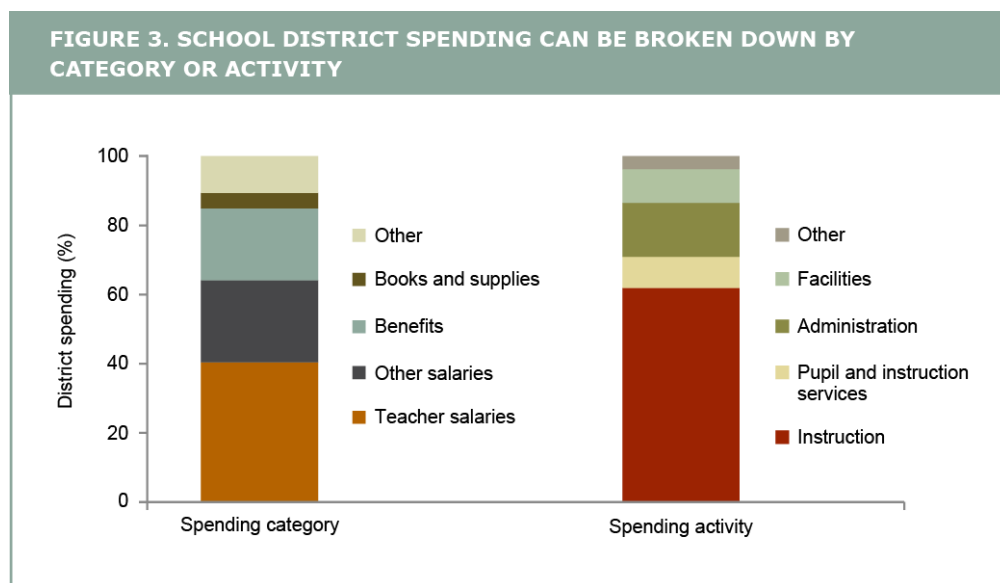
NOTE: Funding is not adjusted for inflation. Total spending data excludes capital outlay, transfers, and other outgo.

The majority (61%) of school revenues are unrestricted general-purpose funds that support basic school operations and are spent at the discretion of local school boards. The remainder come from restricted categorical state and federal funding that is earmarked for special programs and purposes. By most accounts, there are at least 60 special programs that fund a wide range of areas, such as special education, professional development for teachers, and instructional materials. Some of the largest categorical programs provide additional services and programs for students facing additional challenges, including English Learners (ELs) and economically disadvantaged children. Disadvantaged students are also supported by large federal programs, including Title I and the National School Lunch program.

Since 2009, the state has allowed greater flexibility in the way districts allocate categorical program funding. This flexibility—which is set to expire in 2015—has helped many districts to avoid cuts to core education activities by scaling back or eliminating categorical programs, including adult education, professional development for teachers, and arts and music education. Districts generally approve of the increased spending flexibility and a majority would like it to be expanded.⁶

SCHOOL SPENDING

School spending can be broken down by category, such as durable goods and personnel, and by activity, such as instruction or administration. The two methods are not mutually exclusive—for example, some personnel (such as administrators who are also teachers) split their time between activities. In terms of categories of school spending, the vast majority (85%) is for staff salaries and benefits (Figure 3), with the remaining 15 percent of funds used to purchase books and supplies and other items such as insurance and utilities. When spending is broken down by activity, most of it (71%) goes toward instructional activities and services, such as class instruction, counseling, and transportation. Approximately 16 percent of all spending, including debt service and facilities, support school and district administration.



SOURCE: Education Data Partnership, 2010–11 Financial Reports for State.

NOTES: Spending categories exclude capital expenditures. Other spending categories include travel, dues, insurance, consulting, and operating expenses. Other activities include ancillary and community services, enterprise, debt service, and transfers.

In response to decreased funding, school districts have made significant reductions in the number of teachers and other certificated staff they employ, including school administrators, counselors, librarians, and nurses.⁷ While student enrollment since 2007–08 has been relatively flat, the number of teachers has fallen nearly 11 percent, creating larger class sizes. The Legislative Analyst’s Office found that average class sizes have increased across all grade levels: in grades K–3 they have gone from 23 to 26 pupils; in grades 4–6, from 30 to 31; and in grades 7–12, from 30 to 32. California’s class sizes are among the largest in the nation.

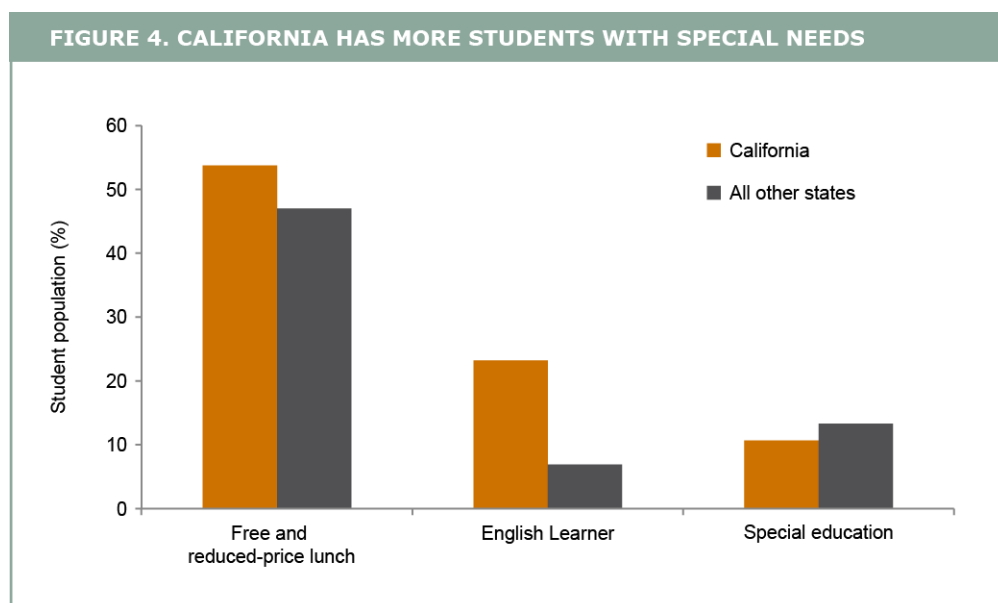
THE SYSTEM’S FLAWS

Given its complicated history, it is not surprising that California’s school finance system is widely criticized for three major flaws: it is inadequate, inequitable, and overly complex.

First, critics charge that California’s school finance system is inadequate in that it does not enable all students to meet the state’s academic performance standards.⁸ One way to measure adequacy is to look at per pupil spending. When we compare California’s per pupil funding level to the national average, it is clear that the state has been spending less for decades. Even when per pupil spending peaked in 2007–08, California was spending approximately \$750 less than the national average.⁹ Moreover, costs—especially labor costs—are higher in California than in the rest of the nation, and a dollar spent here may not buy as much as in another state. Once these cost differences are factored in, the gap between California and the national average increases to nearly \$2,000 per pupil in 2007–08. Given that salaries and benefits comprise such a large proportion of district budgets, this means fewer teachers, counselors, aides, and administrators in California compared to other states.

In addition, California students were hit harder by the Great Recession than the average student in the rest of the country. Since 2007–08, inflation-adjusted average spending per pupil in the rest of the country has declined about 4 percent, compared to 12 percent in California.¹⁰ To put these relative funding decreases in perspective, California’s average class size—already larger than the national average—increased from 20.9 to 23.2, while the average class size in the rest of the country remained at around 15 students.¹¹

Finally, California’s student population is different from that of most other states. California’s 6.2 million public school students are among the most diverse in the nation: 51 percent are Latino, 27 percent are white, 11 percent are Asian, and 7 percent are African American. In the rest of the country, a majority of students are white. Also, many of California’s students have special needs: 54 percent are eligible for free or reduced-price meals, 23 percent are ELs, and 11 percent receive special education services.¹² California has more ELs than any other state and its percentage of low-income students ranks in the top quarter (Figure 4).



SOURCE: NCES Common Core of Data Public Elementary and Secondary School Universe Survey and Local Education Agency Universe Survey, 2010–11; California Department of Education.

NOTES: “All other states” includes the District of Columbia. California did not report EL counts in the Common Core for 2010–11, so California EL data comes from the California Department of Education. State and federal counts differ for free and reduced-price lunch counts and special education students; therefore, the figure may not match state counts.

Given the characteristics of California’s student population, it may be more informative to compare California to other large, diverse states: Florida, New York, and Texas (Table 1).¹³ In 2009–10, California spent approximately \$1,000 more per pupil than Texas and \$500 more than Florida. But California spends much more on teacher salaries than Florida and Texas, which means that California students are in larger classes. New York has similar average teacher salaries, but spends more than double per pupil than California and is able to maintain much smaller class sizes.

TABLE 1. COMPARISONS BETWEEN CALIFORNIA AND OTHER LARGE, DIVERSE STATES, 2009–10

	Spending per pupil	Average teacher salary	Pupil-teacher ratio	Grade 4 math scores
California	\$9,407	\$70,458	19.8	232
Florida	8,925	46,912	14.3	242
New York	18,877	71,470	12.9	241
Texas	8,593	47,157	14.6	240

SOURCES: National Public Education Financial Survey 2009–2010, State Nonfiscal Survey of Public Elementary/Secondary Education 2009–10, Local Education Agency Universe Survey, NAEP 2009 Mathematics Assessment, NCES; New York State Education Department, *The New York State Report Card: Accountability and Overview Report 2009–10* (2011); National Education Association, *Rankings and Estimates: Rankings of the States 2010 and Estimates for School Statistics 2011* (2010).

NOTES: Funding not adjusted for regional costs as in Figure 6. The NAEP math scale ranges from 0 to 500, California’s average score is statistically significantly smaller than Florida, New York, and Texas.

California’s low per pupil spending level is not the only determinant of student outcomes, but it may factor into the test scores of California’s fourth-grade students, which rank 45th in the nation and are significantly lower than student scores in Florida, New York, and Texas.¹⁴ In addition, in California the difference in scores by race and income is larger. There is a gap of 30 points between white and black students in California, compared to 22 points in Florida and New York and 23 points in Texas. And the gap between students who do and those who do not qualify for free and reduced-price lunch is also larger in California.

This leads to the second major critique of California’s school finance system: that it is inequitable. Differences in base funding are determined by historic factors such as the type and size of a district, not by student needs. This means that funding per pupil varies even across districts serving similar student populations. In four Southern California districts with the same zip code, total funding per pupil ranges by more than \$1,700 per pupil in 2010–11 (Table 2).

TABLE 2. FUNDING VARIES EVEN AMONG DISTRICTS IN THE SAME ZIP CODE

District type – size	Percent free or reduced-price lunch	Percent EL	Total funding per pupil
Elementary – large	79%	32%	\$7,306
High school – medium	63	20	8,589
Elementary – small	20	4	6,882
Elementary – small	47	16	8,302
Statewide average	56	24	8,208

SOURCE: PPIC School Finance Model.

NOTE: Funding per pupil in 2011–12.

Moreover, despite state and federal programs and funding to support students with additional challenges, critics charge that our school finance system does not provide these students with enough resources to meet the state’s high academic performance standards.¹⁵ For example, many studies have found that low-performing and disadvantaged students often have the least experienced teachers and experience higher levels of teacher turnover.¹⁶

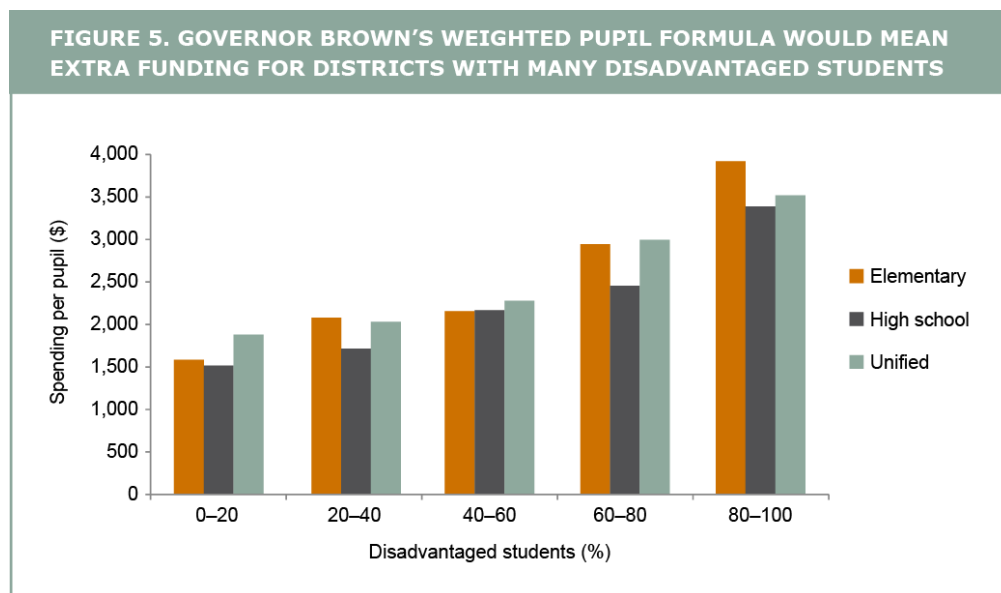
The school finance system’s third major flaw, its complexity, makes it difficult for parents, administrators, and taxpayers to understand how schools are funded and what differences in funding exist across schools and districts. The general consensus is that only a few experts truly understand the system, because it has been shaped by a series of court cases, voter-approved initiatives, and historic spending patterns, rather than by the needs of students. This is not to say that California is the only state with a complex system. But many

other states have adopted more transparent finance systems that are designed to accommodate the varying needs of students.

PATHWAYS FORWARD

In response to some of the school finance system’s flaws—in particular, its inequity and complexity—Governor Jerry Brown has proposed a weighted pupil funding formula (WPF) as an alternative to the current system.¹⁷ The WPF in the governor’s January proposal provides base funding for all students and allocates additional funding (“weights”) for targeted students—for example, ELs and students who are eligible for free or reduced-price lunch. The proposal includes extra funding for districts where targeted students make up more than 50 percent of the student population. After consulting with school districts and statewide education organizations, Governor Brown revised his proposal in May. The new proposal added weights for grade levels, reflecting the belief that some grade levels may be more expensive, such as science lab equipment or additional elective courses for students in high school. Also, some categorical funding was excluded from the WPF. Together these changes resulted in a smaller weight (20% vs. 37%) for targeted students.

Using the PPIC School Finance Model, we analyzed the governor’s proposals and found that they would increase the funding levels for districts with many disadvantaged students relative to other districts, making the system more equitable (Figure 5).¹⁸ In addition, the proposals create a more transparent system and, by removing many categorical spending restrictions, represent a shift toward local control.



SOURCE: Rose, Sonstelie, and Weston, calculations based on PPIC School Finance Model.

NOTE: Figure includes Governor’s May proposal only.

Ultimately, the legislature did not adopt Governor Brown’s proposal. However, most experts believe that in January 2013 he will introduce an amended proposal that incorporates feedback from school districts and statewide education associations.

CONCLUSION

The passage of Proposition 30 protects public schools, colleges, and universities from additional deep cuts in 2012–13. The Department of Finance projects that Proposition 30 funds along with an improving state economy will increase per pupil funding by more than \$2,500 over the next four years.¹⁹ These estimated increases would bring state funding close to inflation-adjusted pre-recession levels.²⁰ This would represent a significant increase of 37 percent from 2011–12 funding levels—but, as this report has shown, schools have experienced large

reductions since 2007–08 and have long been funded below the national average. Moreover, even when school funding was at its peak, many studies pointed to the need for increased funding.²¹

If Governor Brown—as expected—proposes a new weighted pupil funding formula in the next legislative session, the state will have the opportunity to tackle the system’s other major flaws: inequity and complexity. As more revenue flows into our schools, a new funding formula could direct the money in a way that is more responsive to student needs. ■

NOTES

1. *Serrano v. Priest*.
2. National Center on Education Statistics.
3. Proposition 98 also includes local property taxes. The state provides approximately \$5.5 billion to school districts that is not part of the Proposition 98 calculation, including state lottery funding and Proposition 49 funding for afterschool programs. For more information, see the LAO’s online tutorial (www.lao.ca.gov/2009/edu/prop98_primer/prop98_primer.aspx).
4. General federal stimulus funding includes and \$3.2 billion from the State Fiscal Stabilization Fund of the American Recovery and Reinvestment Act of 2009 and \$1.2 billion from the Education Jobs and Medicaid Assistance Act of 2010 designed to save or create education jobs in 2010–11. Other stimulus funds were used to increase funding in federal categorical programs, such as Title I and special education. See the U.S. and California Department of Education websites for more information.
5. Legislative Analyst’s Office, *Year-Three Survey: Update on School District Finance in California* (2012). Proposition 98 funding was \$7,232 per pupil in 2011–12. Total funding and spending data for 2011–12 are not yet available.
6. Legislative Analyst’s Office, *Year-Three Survey*. For more about categorical flexibility, see Margaret Weston, *California’s New School Funding Flexibility* (PPIC, 2011).
7. Legislative Analyst’s Office, *Year-Three Survey*.
8. The *Robles-Wong v. California* adequacy lawsuit charges that the school finance system is unconstitutional because it fails to provide all students with an equal opportunity to meet state standards. Getting Down to Facts, a research project of the Institute for Research on Education Policy and Practice (IREPP), included four adequacy studies. Jon Sonstelie estimates the cost to California’s public schools of meeting the state’s achievement standards and finds they would need a total increase of 40 percent of total 2003–04 expenditures. See Sonstelie, “Aligning School Finance with Academic Standards: A Weighted-Student Formula Based on a Survey of Practitioners” (PPIC, 2007).
9. Author’s calculations using data from Keaton, *Public and Secondary School Student Enrollments and Staff Counts from the Common Core of Data: School Year 2010–11* (U.S. Department of Education, National Center for Education Statistics, 2012); National Education Association, *Rankings and Estimates 2012*; and Taylor and Fowler, *A Comparable Wage Approach to Geographic Cost Adjustment* (National Center for Education Statistics, 2006).
10. Author’s calculations using data from Keaton, *Public and Secondary School Student Enrollments*; National Center for Education Statistics; National Education Association; and Taylor and Fowler, *A Comparable Wage Approach*.
11. Numbers cited are average pupil-teacher ratios from the Education Data Partnership and National Center for Education Statistics.
12. Federal and state student counts differ. According to California Department of Education data, in 2010–11 56 percent of students were eligible for free or reduced price lunch and 10 percent received special education services.
13. These states are the four largest in number of students, have comparable percentages of students qualifying for free or reduced-price lunch, and have many ELs, though California has the largest number and percent of ELs.
14. In a review of many studies of California’s school finance and governance system, researchers concluded that simply more money is unlikely to improve student outcomes and that how resources are used does matter. See Loeb, Bryk, and Hanushek, *Getting Down to Facts: School Finance and Governance in California* (Institute for Research on Education Policy and Practice. Stanford University. 2007).
15. For example, Duncombe and Yinger found that high-poverty districts would need an increase of approximately \$1,400 per pupil to perform at the same level as low-poverty districts on state tests. See Duncombe and Yinger, *Understanding the Incentives in California’s Education Finance System* (IREPP, 2007).
16. See Guarino, Santibañez, and Daley, “Teacher Recruitment and Retention: A Review of the Recent Empirical Literature,” *Review of Educational Research* 76 (2): 173–208; Jackson, “Student Demographics, Teacher Sorting and Teacher Quality: Evidence from the End of School Desegregation,” *Journal of Labor Economics* 27 (2): 213–56; and Lankford, Loeb, and Wyckoff, “Teacher Sorting and the Plight of Urban Schools: A Descriptive Analysis,” *Educational Evaluation and Policy Analysis* 24 (1): 37–62.
17. Governor Brown’s WPF proposals were part of his 2012–13 budget proposals.
18. Rose, Sonstelie, and Weston, *Funding Formulas IV: An Analysis of Governor Brown’s Weighted Pupil Funding Formula, May Budget Revision* (PPIC, 2012).
19. California Enacted 2012–13 State Budget Summary.
20. Assuming a real increase of \$2,500 per pupil over four years, the Proposition 98 total per pupil would be approximately \$10,000 per pupil in 2010 dollars. In 2007–08, Proposition 98 funding per pupil was approximately \$8,500. Adjusted for

inflation using the consumer price index, this is roughly equal to \$9,500 per pupil. An alternative inflation index, the implicit price deflator for state and local governments yields a slightly higher level of inflation-adjusted spending (\$9,700). However, personal income tax revenue in California is historically volatile, which could mean that projected Proposition 98 revenue increases could be much higher or lower. Also, if the projected \$2,500 per pupil increase is nominal, the target is actually lower in current dollars.

21. See the adequacy studies from IREPP's Getting Down to Facts project: Duncombe and Yinger, *Understanding the Incentives in California's Education Finance System*; Chambers, Levin, and DeLancey, *Efficiency and Adequacy in California School Finance: A Professional Judgment Approach* (2007); Imazeki, *Assessing the Costs of K-12 Education in California Public Schools* (2007). See also Sonstelie, "Aligning School Finance with Academic Standards."

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OTHER PUBLICATIONS

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California's New School Funding Flexibility

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