

Rethinking the State-Local Relationship: K-12 Education

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Summary

Governor Jerry Brown's January 2011 budget proposal suggests shifting responsibility and funding for many state programs from the state to the local level. Under this "realignment" of government authority, local governments—usually counties—would be given responsibility for providing the services in realigned programs, and the state would provide local governments with a source of funding for the new responsibilities. In addition, local governments would be granted the authority to reshape realigned programs to better accommodate local conditions and priorities.

Although K–12 education is not included in the governor's realignment proposal, similar themes apply to the current discussions and legislation pertaining to California's school finance system. Critics charge that California's method of financing its public schools is too centralized, given that most funding—and decisionmaking authority over that funding—comes from the state. And indeed, the state does provide the majority of K–12 funding, and about one-third of those funds come with restrictions on their use. These earmarked funds are known as categorical programs. Proponents of school finance reform generally favor a system where local school districts have more control over both the funding they receive and the types of programs they implement.

Additionally, recent budget cuts to schools—and the possibility of future funding reductions—raise questions about how local school districts spend state tax dollars. One of the goals of realignment is to achieve greater efficiency in the use of state funds. Given more flexibility, school districts may be able to isolate inefficiencies and maintain or even improve student outcomes with fewer resources. And as the state's economy improves, local spending decisions may inform state policymakers about where to invest additional resources.

This report examines California's school finance system through the lens of realignment, offering a framework for thinking about how K–12 realignment might work and the difficulties it might face. Certainly there are arguments on both sides of the equation. Proponents of greater local control argue that local school authorities have a better knowledge than state officials of the unique needs in their districts and that greater local control would reduce the administrative burden on schools and enable them to redirect their resources toward improving student outcomes. Those in favor of maintaining state control argue that central control allows the state to ensure its priorities are met across individual districts and that students in all districts, regardless of their size or location, are provided with similar educational opportunities. This study examines the tradeoffs of each approach, concluding that thoughtful revisions in the state's categorical funding system would offer a good first step in moving toward a more productive, efficient, and transparent school finance system.

Contents

Summary	2
Figures	4
Introduction	5
History and Current Status	6
Principles	10
Arguments in favor of state control	10
Arguments in favor of local control	11
Funding	13
Constraints	15
Conclusion	16
References	18
California's School Finance System	18
School Finance Reform	18
Categorical Revenues	18
About the Author	19

Figures

- Figure 1. School districts are funded through both restricted and unrestricted revenues 7
- Figure 2. The vast majority of categorical revenues is allocated to just 15 of some 60 programs 13

Introduction

Under the California Constitution, ultimate responsibility for K–12 education lies with the state. However, throughout most of its early history, K–12 education was financed and controlled at the local level, with the state providing only limited supplemental funding. This changed in the 1970s, when a state Supreme Court decision and Proposition 13 dramatically shifted responsibility for funding K–12 from local districts to the state. And then, having assumed responsibility for financing schools, the state gradually assumed more control over local decisions by earmarking funds for specific purposes (known as categorical programs). Today, California’s school finance system is among the most centralized in the nation (Kirst 2007).

The costs of administering categorical programs, as well as the narrow focus of these programs, have led many to conclude that categoricals are an inefficient way to fund school districts. A large body of research has focused on this component of the school finance system, and critics have proposed deregulating categoricals altogether—removing the programmatic and spending strings attached to the funding—and consolidating them into large thematic revenue streams, or block grants, which would provide a less complex and more flexible allocation of revenues and greater authority to local school districts.

In 2009, in response to sharply declining state revenues, and to help districts absorb large cuts in school funding, the legislature lifted the restrictions on 40 categorical programs. Although the removal of the restrictions was not explicitly designed as school finance reform, many proponents of increased local control view this new flexibility as a step in the right direction, and districts report they want even more responsibility, which legislators may consider in light of the current discussions surrounding realignment in Sacramento.

In the following pages, we provide a short history of California’s school finance system, a set of basic principles that should prove helpful in guiding realignment decisions, a discussion of the funding issues, and finally, an examination of the constraints involved in realignment.

This paper focuses on only one aspect of the state-local relationship in K–12 education: categorical programs. Although these programs represent only one issue in a larger rethinking of state and local involvement in K–12 education, categorical consolidation is an important, long-standing issue—and currently under debate in the legislature.

History and Current Status

California's current school finance system is largely a product of two events in the 1970s that shifted the bulk of school funding from the local to the state level. In 1971, the California Supreme Court ruled in *Serrano v. Priest* that the state's school finance system was unconstitutional and ordered the state to equalize general purpose funding across districts. Then, in 1978, Proposition 13 capped the property tax rate at 1 percent, limited increases in assessed values on which the tax was based, and left the state to determine how the diminished revenue would be allocated. It also raised the threshold for approval of taxes, requiring a two-thirds majority among voters to enact special taxes, including parcel taxes. In response to Proposition 13, the legislature imposed a one-time cut in school district revenues on a sliding scale ranging from 9 to 15 percent (higher-revenue districts were subject to larger funding cuts) and decided to make up the remaining property tax losses with state aid.¹ Prior to these events, school districts set their own property tax rates, and this local revenue constituted the majority of school district funding. In 1977–78, local property tax accounted for 49 percent of total K–12 funding (38 percent of the total was provided by the state, and the remaining 13 percent by other sources such as the federal government). Afterward, the responsibility of financing California's schools shifted largely to the state: In 1978–79, local support dropped to 25 percent and state support increased to 61 percent. The exact percentage varies each year, but between 2000–01 and 2009–10 the state's General Fund provided, on average, 55 percent of all K–12 funding (EdSource 2010).

The state determines its K–12 contribution through a series of complex formulas governed by Proposition 98, a 1988 voter-approved initiative that dictates the minimum amount of funding the state must provide to schools. Proposition 98 revenues include local property taxes and money from the state's General Fund. These sources account for more than 70 percent of all annual K–12 revenues.

The majority of Proposition 98 funds support the largest K–12 funding category, known as “revenue limits,” which pays for basic school operations. Every school district has a base revenue limit—a dollar amount per pupil funded through the district's share of local property taxes. If a district's property taxes cannot fully fund this base amount, the state covers the gap.²

Proposition 98 revenues also support state categorical programs. Unlike the funding for basic school operations, these funds must be spent on specific activities such as special education, textbooks, and professional development for teachers. Weston, Sonstelie, and Rose (2009) cataloged more than 60 state categorical programs in existence in 2005–06. In addition to Proposition 98 revenues, schools districts receive funds through federal categorical programs, such as Title I and the National School Lunch program, and from local sources, including parcel taxes and donations.

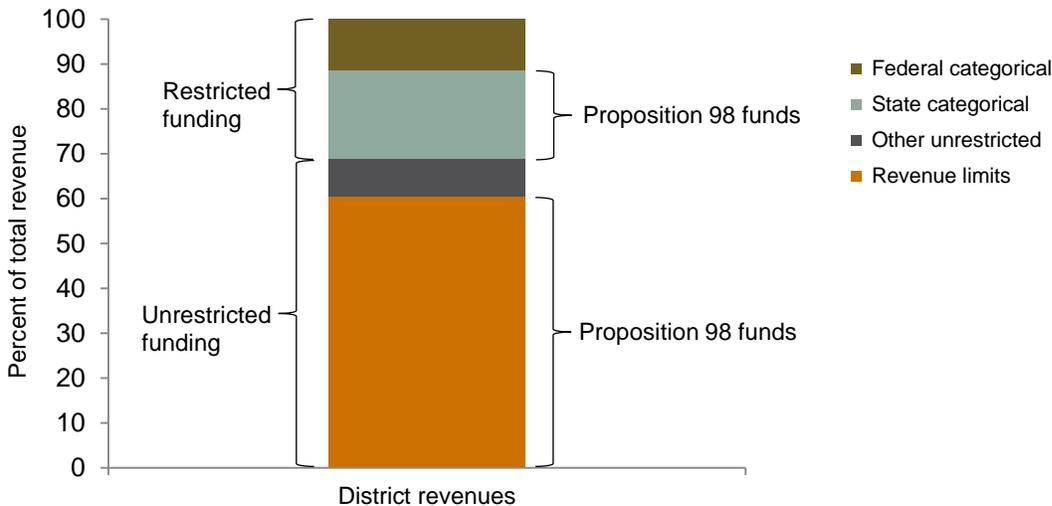
All of these revenues can be classified into two categories: unrestricted general purpose funds that can be spent on any educational purpose, and restricted or categorical funds that are earmarked for special programs and purposes (Figure 1). Unrestricted funding includes revenue limits, a share of state lottery revenues, and most additional local funds. Unrestricted funding accounts for close to 70 percent of all

¹ Senate Bill 154 (Chapter 292, Statutes of 1978) enacted the one-time funding cut and created an allocation formula for dividing property tax revenue among local governments, including counties, cities, school districts, and other special districts such as libraries. Assembly Bill 8 (Chapter 282, Statutes of 1979) altered SB 154's allocation formula, diverting some funding from school districts to other local governments, which the state backfilled with aid. See Sonstelie, Brunner, and Ardon (2000).

² Some districts, called “basic aid” or “excess tax” districts, acquire more property taxes than their revenue limit, and they are allowed to retain these “excess” revenues.

California school district revenues, approximately \$5,700 per pupil in 2009–10. Restricted funding includes state and federal categorical programs and constitutes about 30 percent of district revenues, approximately \$2,600 per pupil in 2009–10.

FIGURE 1
School districts are funded through both restricted and unrestricted revenues



SOURCE: Education Data Partnership statewide totals and averages for school districts, 2009–10.

NOTE: Data are for 2009–10 school year. Chart does not reflect flexibility provisions granted by 2009 Budget Act (state categorical includes \$4.5 billion flex item). Unrestricted incentive categoricals, such as K–3 Class Size Reduction, are counted as state categorical funds. Some state categorical programs are funded through state aid other than Proposition 98, such as the state lottery and 2009–10 pupil transportation funding.

Until 2009, districts had relatively little control over how they could spend their categorical revenues. Each program dictated the types of activities, purchases, and services to be provided at the local level, and the California Department of Education (CDE) monitored districts’ compliance with program expenditures and requirements. However, in response to deep budget shortfalls, and to help districts absorb extensive budget cuts, the legislature lifted restrictions on 40 categorical programs in the 2009 Budget Act. Districts may now spend funding in those programs—approximately 30 percent of all categorical funds and 10 percent of all K–12 funds—on any educational purpose through 2015.

The new flexibility provisions are the most recent and largest shift toward greater local control over categorical funds. Between 1979 and 2004, the state pursued five major policies that either attempted to reduce the number of programs or provide local administrators with more flexibility over categorical program requirements and funding. Evaluations of these prior efforts found that few school districts knew of, or chose to participate in, the flexibility policies and that, in fact, these prior efforts generally provided little additional flexibility.³

In contrast, the Legislative Analyst’s Office (2011) found that in 20 of the 40 flexible programs exempted from restrictions in the 2009 Budget Act, more than half of all districts reported shifting funds away from the program to use for other purposes. In each case, except one—funds for longer school days at Community Day Schools (special schools for expelled, habitually truant, and high-risk students)—the majority of districts

³ See Weston (2011) for a discussion of each prior policy and summary of evaluation findings.

reported initiating *significant* changes, including elimination of the program. The LAO further found that the flexibility provisions made it easier for more than 90 percent of districts to develop and balance their budget and to dedicate resources to local education priorities. The vast majority of districts would also prefer to have greater flexibility in many of the 20 programs currently excluded from the flexibility provisions, such as K–3 class size reduction and the After School Education and Safety program.

Examples of California’s diverse categorical programs

California’s categorical programs vary widely in their purpose, scope, and beneficiaries. The following examples include 2009-10 funding levels and whether the 2009 Budget Act listed the programs as flexible.

- Special education: \$3.1 billion (not flexible)
- K–3 class size reduction: \$1.8 billion (partially flexible)
- Adult education: \$634.8 million (flexible)
- After School Education and Safety (Proposition 49): \$546.9 million (not flexible)
- Career-technical education: \$384.7 million (flexible)
- Professional development for teachers (six programs): \$300.5 million (flexible)
- Middle and high school counseling services: \$167.1 million (flexible)
- Gifted and talented education: \$44.2 million (flexible)
- Foster youth services: \$15.1 million (not flexible)
- Oral health assessments for kindergarteners: \$3.5 million (flexible)
- California Association of Student Councils: \$26,000 (flexible)

Given these district responses, it may be less likely that California will revert to its former school finance system when the flexibility provisions expire in 2015. Although the flexibility provisions were not explicitly designed as school finance reform—their purpose was simply to help districts cope with large funding cuts—they bring new attention to the debate over state and local control in K–12 education. The legislature recently extended the flexibility sunset date from 2013 to 2015, giving the state time to consider the balance between state interests and local needs.

However, in spite of the relaxation of restricted funding, the LAO (2011) has observed that the flexibility provisions “have done little to make the K–12 finance system more rational, equitable, and efficient. Even if the current flexibility structure were made permanent, the K–12 finance system still would have inherent flaws.” There is also a renewed interest in reforming California’s school finance system, as evidenced by Assembly Bill 18 (Brownley 2011) and two lawsuits (*Robles-Wong v. California* and *Campaign for Quality Education v. California*). As the legislature, and possibly the courts, consider revisions in California’s school finance system, categorical programs are likely to emerge as a central consideration. The following sections of this report examine the arguments favoring either state or local control, as well as the funding issues involved and the possible constraints on permanently providing more local authority over school funding.

How school finance reform might affect categorical programs

By most accounts, California's school finance system is complex, inadequate, and inequitable. Over the past several years, two major school finance proposals have emerged that would replace the current system with a simpler, more transparent, and more equitable system. The new system would largely be achieved by combining the majority of categorical programs and revenue limits into a few simple programs with the following guidelines:

- Base funding would include revenue limits and categorical programs focused on broad general purposes, such as K–3 class size reduction and instructional materials. Funding would be allocated on a statewide per pupil rate based on the total number of students.
- Special education funding would remain largely unchanged. Funding would be allocated on a statewide per pupil rate based on the total number of students, with some adjustments for low-incidence, high-cost disabilities.
- Targeted funding would combine many categorical programs that target at-risk students, including disadvantaged students and English learners. Funding would be allocated on a statewide per pupil rate based on a count of targeted students (for example, students eligible for free or reduced price lunch).
- Other categorical programs may remain intact or be combined into other broad revenue streams. For example, funds for adult education or small, geographically isolated schools may remain stand-alone programs. Programs designed to improve student outcomes or school efficacy, such as teacher professional development, could be combined.

See Bersin, Kirst, and Liu (2008), Governor's Committee on Education Excellence (2007), and Legislative Analyst's Office (2008).

Principles

There are many legitimate reasons for placing restrictions on school funding, and since the state's General Fund provides the majority of K–12 revenues, it is rational that the state should exert some control over those revenues. Alternatively, the state has recognized arguments in favor of local control by enacting policies that reduce the number of programs or provide more flexibility over categorical revenues. This section discusses the rationale for maintaining state control, as well as arguments for increasing local control.

Arguments in favor of state control

Maintaining state priorities. Because of its large investment in K–12 education, the state has a legitimate interest in the achievement of its students and a fundamental right to prioritize specific types of spending to improve student outcomes. Categorical programs ensure that school districts pursue the state's priorities.

Ensuring statewide uniformity. Some categorical programs seek to ensure that students in all districts across the state, regardless of their geographic location or size, experience the same educational environment. Class size reduction in K–3 is a good example. Until recently, this funding program provided \$1,071 per pupil in grades K–3 for every class that did not exceed 20 students. Districts that exceeded 20 students per class lost all funding in this categorical program. In 2008–09, all but 15 of the 863 districts with students in grades K–3 chose to reduce class sizes to obtain this funding. In its 2009 budget, however, the state reduced the penalties for districts exceeding 20 students per class. Today, districts receive approximately \$750 per student, even if class sizes exceed 25 students. The Legislative Analyst's Office (2011) found that average class sizes increased after districts were afforded greater flexibility under the 2009 Budget Act, but that not all districts increased class sizes, introducing more variation in the experience of students in grades K–3 across the state.

Correcting incentive structures. Categorical programs can correct local adverse incentives. A commonly cited example is special education. Districts typically face higher than average costs per student in providing supplemental services and programs for special education students. The absence of additional, dedicated revenues could result in fewer services and programs for these students. Categorical special education revenues offset some of those higher costs and may only be spent on special education students, correcting this fiscal disincentive. This concern applies to other subgroups of students as well, such as English learners, pregnant minors, and children from low socioeconomic backgrounds. Categorical programs targeting these students ensure that districts provide some additional support. Given total local discretion, some districts might no longer provide the same level of support for these subgroups.

Relieving local political pressure. Although increased flexibility allows superintendents to shift funds between schools based on their needs and priorities, local political pressure can counter such efforts. State restrictions may help thwart such interference. For example, funds for disadvantaged students require districts to provide additional resources to schools with large enrollments of these students. Some superintendents believe that without state restrictions, locally elected school boards might tend to allocate resources equally to all schools, regardless of differences in need (Rose, Sonstelie, and Reinhard 2006).

Reducing collective bargaining concerns. Restrictions may protect funds from the collective bargaining process. Many local bargaining agreements require districts to provide salary increases whenever general purpose funding—revenue limits—increases (Legislative Analyst's Office 2008). However, categorical

revenues cannot be used to fund salary increases. In fact, the history of categorical programs in California suggests that some categorical programs were specifically created to prevent salary increases. For example, categorical funding to reduce class size requires districts to hire more teachers in order to reduce class sizes, rather than increase the salaries of current teachers, as might be the case if those same funds were added to revenue limit funding. This concern over unrestricted funding and collective bargaining is present at both the state and local level (Rose, Sonstelie, and Reinhard 2006, Kirst 2007, Timar 1994).

Arguments in favor of local control

Meeting local needs. Proponents of categorical flexibility often highlight the strengths of local knowledge. California is a large and diverse state, with almost 10,000 schools in 1,000 districts, and not every program will be equally effective in every district. Categorical restrictions prohibit local administrators from shifting funds to meet local needs and can fragment services (Legislative Analyst's Office 1999).

Shifting from administration to instruction. Many state programs have their own application procedures, compliance restrictions, and paperwork, resulting in a large administrative burden for districts and the California Department of Education. More than a decade ago, a report by the Little Hoover Commission (1997) suggested that the administration of categorical programs might be redirecting district staff time away from instruction. One of the benefits of categorical consolidation is that it should result in a lower administrative burden at schools, district offices, and CDE, freeing up resources for instruction in schools and evaluation (in place of compliance monitoring) at district offices and CDE.

Creating parity with charter schools. Charter schools are ineligible to apply for many individual categorical programs. Instead, the state provides in-lieu funding for these programs in a single, flexible block grant. Charter schools also receive funds through a few stand-alone state categorical programs not included in the in-lieu block grant (e.g., K–3 class size reduction and the state lottery). In addition to this more flexible revenue, many Education Code regulations do not apply to charter schools, giving them additional programmatic and regulatory flexibility. Removing or relaxing the restrictions of categorical programs would provide school districts with funding flexibility comparable to charter schools, although some constraints, such as collective bargaining, would remain.

Increasing transparency. California's school finance system is more complex than it need be, and the new flexibility provisions add yet another layer of complexity. Consolidating the majority of categoricals into larger, thematic block grants would provide greater transparency of funding across school districts. With increased transparency, parents and taxpayers might better understand how much revenue their district receives and how it is spent and thus might be more willing to support additional funding for their schools.

Promoting local innovation. More autonomy over local programs and expenditures may motivate districts to seek and create new approaches and interventions for improving student outcomes. Currently, there is no systematic way to evaluate local innovations or share proven best practices across the state.⁴ Building CDE's capacity to conduct evaluations of local innovations could help the state identify best practices for improving student outcomes and benefit students statewide.

⁴ In 2008, the state created an internet portal to share best practices in the middle grades. CDE's website also includes a "success stories" page with links to news stories.

Improving accountability. Proponents of increased funding flexibility argue that reducing state control over local fiscal decisions would enable the state to focus more on evaluation and local accountability, and that given more responsibility, administrators and local school boards may become more accountable to parents and taxpayers. Although this makes sense, it has not yet been tested in California.

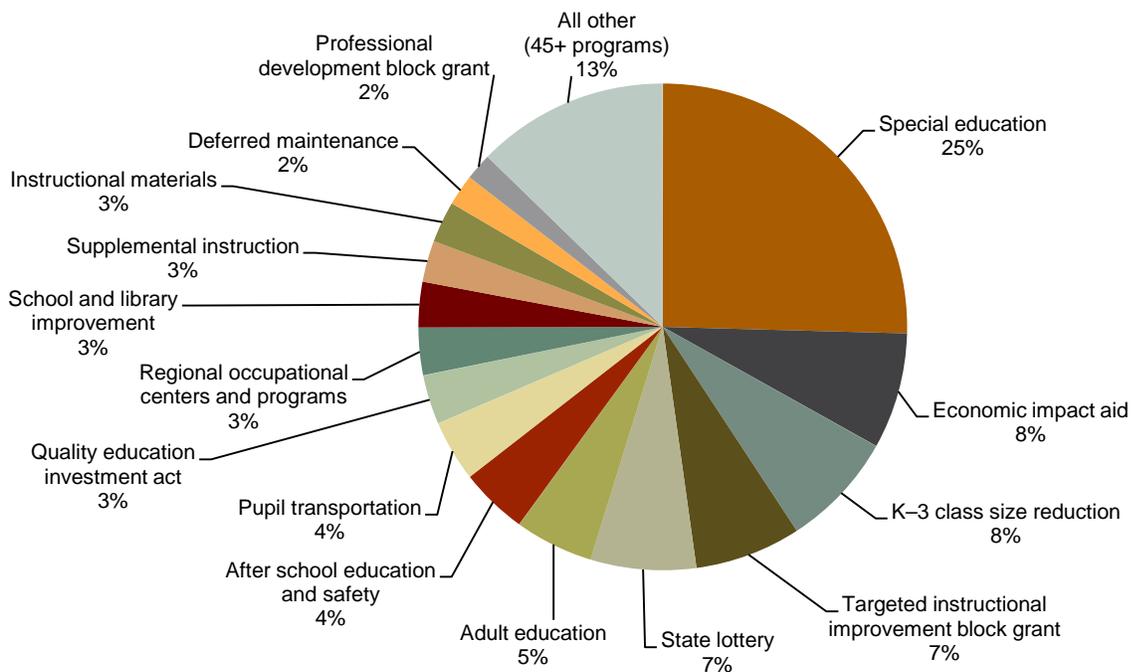
Taken together, these principles frame much of the debate about categorical programs, and they largely favor increasing funding flexibility. The principles in favor of maintaining state control are not inherently opposed to local control; rather, they mark important issues to consider when creating flexible funding policies. There are several ways to provide more local control over categorical programs—from the current flexibility provisions that offer complete control, to block grants that offer flexibility within a theme of funding. With careful consideration, the state should be able to construct a more flexible funding mechanism that mitigates many of the concerns surrounding unrestricted local control.

Funding

In other governing areas, the discussion about realignment focuses on shifting state programs *and* their associated funding to local governments. By contrast, in K–12 education the state would continue to provide funding to schools. Although there are many arguments for increasing the state’s investment in education, the focus on K–12 realignment is not about providing more funding to school districts so that they can take on additional program responsibilities. Instead, the debate about realignment in education focuses on the share of funding already received by districts that is restricted to specific programs and services compared to their share of discretionary funding.

As shown in Figure 1 (p. 7), about 30 percent of a district’s budget is earmarked for specific purposes. Although some 60 programs receive this money, the majority of funding goes to only a few: Almost 90 percent of all categorical funding is allocated through 15 programs (Figure 2), while more than 30 programs receive less than \$50 million each statewide—about \$8 per pupil. The share of state spending channeled to schools through categorical programs has grown dramatically: Categorical revenues accounted for approximately 10 percent of all K–12 funds in 1976–77, compared to 30 percent in 2006–07 (Governor’s Committee on Education Excellence 2007).

FIGURE 2
The vast majority of categorical revenues is allocated to just 15 of some 60 programs



SOURCE: Legislative Analyst’s Office (2011) and California State Controller’s Office (2010).

NOTE: Data are for 2010–11 school year (lottery data is the total for 2009–10).

Many believe this growth in categorical programs and revenues prevents local administrators from best serving the needs of their students. The current flexibility provisions have eased this problem by allowing districts to use approximately 30 percent of their categorical funds for any education purpose through 2015. Prior to these flexibility provisions, several school finance reform proposals such as those described in the text box (p. 9)

recommended consolidating categorical revenues in such a way as to provide much more local authority over revenues, and district administrators have also expressed a desire for greater flexibility over a larger number of programs. As decisionmakers at the state level reconsider the state-local relationship in K–12 education, they will need to address three significant issues:

How much flexibility should districts have? Prior to the reduction in program restrictions under the 2009 Budget Act, efforts to increase local authority met with little success, according to district officials' responses to surveys conducted by the Legislative Analyst's Office and evaluations by that office, the California Department of Education, and the State Auditor (Weston 2011). Under the current flexibility provisions, the state has provided unprecedented flexibility: Forty categorical programs have been reclassified as general purpose funds, meaning that districts may spend the revenue from these programs in any way they deem appropriate.

However, given the concerns surrounding collective bargaining and traditionally underserved students, as discussed above, others in the debate have argued that the state should still maintain some authority over the funding, proposing possibilities such as consolidating many categoricals under broad thematic block grants. For example, rather than have 20 individual programs focused on at-risk students (English learners, students from low-income families, and so on), the state could block-grant one large revenue stream for at-risk students and allow districts to determine the mix of programs and services to be provided. This would give local districts much more authority and flexibility over the revenues, while ensuring that the districts still direct money toward state priorities.

Which programs should be flexible? Categorical programs are rarely evaluated, in part because of the absence of a statewide longitudinal data system. Thus the state has little information on which categorical programs are effective. Surveys by the LAO (2010, 2011) of district responses to the new flexibility provisions may provide some guidance as to which programs are given lower priority by districts, although their decisions at the time were under duress since the districts were struggling to readjust their funding to deep budget cuts. *California's New School Funding Flexibility* (2011) also offers some criteria for determining whether a program should be flexible and illustrates changes in the distribution of flexible funds across districts, based on those criteria as well as other proposals. Of course, the final determination in funding may be influenced by politics or value judgments about particular programs or subgroups of students.

How can the transition to a more equitable system be accomplished? Categorical funding varies greatly across California's school districts for many reasons. Many categorical programs are designed for specific subgroups of students, and not all districts serve those students or serve them in the same proportion. Some categoricals are grants that provide the same level of funding to districts without regard to district size, which means that funding per pupil can be quite different. If the state eliminates some categorical programs through consolidation, there would no longer be a compelling rationale for differences in the funding of individual programs across districts. But the state would then need to consider how to transition from the current system to one with equitable funding rates.

We simulate such a transition in *Pathways for School Finance in California* (2010), where we model several scenarios that equalize funding across districts in revenue limits, the forty flexible categorical programs, special education, and Economic Impact Aid (a program for disadvantaged students and English learners). We find that it would be relatively expensive to bring all districts up to the 90th percentile of the current flexible funding programs over 20 years, and that it would mean less available funding for increasing the rates in other programs. We discuss this issue, and ways to lower the cost by consolidating programs for at-risk students into Economic Impact Aid, in *California's New School Funding Flexibility* (2011).

Constraints

Because almost all categorical programs are funded entirely through General Fund monies appropriated in the annual Budget Act, there are few constraints in changing their number, requirements, and distribution. However, there are some legal considerations; and some categoricals, such as special education, are subject to federal requirements that would largely prohibit increased flexibility. Among the categoricals eligible for flexibility, the legal considerations appear to be surmountable. The most pressing constraints are political and based on value judgments about individual programs.

Serrano equalization mandate. As noted above, the state Supreme Court decision in *Serrano v. Priest* required the state to equalize general purpose (revenue limit) funds across districts. There is some concern that the current categorical flexibility provisions may put California out of compliance with *Serrano* because these funds are now classified as general purpose, but are not equally distributed across districts. This concern could be mitigated, however, by consolidating categorical programs into block grants, which are not subject to the *Serrano* mandate, or into revenue limits that include equalization funding.

Unique categorical programs. Some categorical programs are funded through money outside the purview of the Proposition 98 guarantee (for example, through special funds such as the state lottery and environmental education). Others are the result of voter-approved initiatives such as Proposition 49 (“After School Education and Safety” 2002) or lawsuits such as *Williams v. California* (an equity lawsuit settled in 2004). Deregulating these programs may require special legislation or voter approval; and, of course, school districts must still comply with federal program requirements.

Individual program advocates. Most categorical programs were created in response to a specific need raised by local administrators, parents, or other advocates. Each program, then, has a lobby behind it that can be expected to argue against its consolidation or elimination. A large number of such advocates attended the legislative hearings surrounding the new flexibility provisions, and legislators are likely to face similar opposition in further deregulating categorical spending.

Lack of information. As previously discussed, there is little information about program efficacy, making it difficult for the state to determine whether to consolidate or eliminate individual categorical programs. Clear criteria would add transparency to the system and might diminish some of the political pressure over program selection.

Conclusion

A considerable number of studies have already evaluated California's school finance system and its flaws. Critics often cite California's many categorical programs and their restrictions as a major problem and believe that the state has gone too far in its authoritative control of the education system. The state has acknowledged some of the problems with its categorical system and has attempted several times over the past 30 years to provide more flexibility over categorical revenues and to reduce the number of programs. By most accounts, these attempts have fallen short, leading reform proposals to focus on simplifying the entire educational structure by consolidating most programs into a few large revenue streams that offer more local control over spending decisions and programs.

Although not explicitly designed as categorical reform, the 2009 flexibility provisions provide unprecedented flexibility over about 30 percent of categorical revenues and 10 percent of all K–12 revenues. These provisions are scheduled to expire on June 30, 2015, offering the state an opportunity in the meantime to evaluate how the new categorical flexibility is working and whether to continue some form of greater local authority over education revenues. If the state decides to continue its experiment in flexibility, it has many options, including consolidating many categorical programs into broader, thematic block grants that might still direct local spending toward critical state priorities.

A larger rethinking of the state and local relationship in K–12 education might also consider the relationship between financing and implementing K–12 education. With the passage of Proposition 13, the state assumed the responsibility of financing schools. However, unlike other program areas, the state also mandates how this money is to be spent at the local level. Daily activities within the schools are beset by federal accountability policies, state mandated curricula, and categorical programs. Thus it should come as no surprise that the current debate in school finance focuses simultaneously on both simplifying the system and on providing additional flexibility to local districts. One major assumption is that if districts are given additional flexibility, schools will be better able to meet federal accountability goals and students will be better able to meet the state's academic standards. This assumption has gone largely untested, with the exception of charter schools and now with the new flexibility provisions in place over the next several years.

Many believe that the current flexibility provisions are a step in the right direction toward a more efficient and productive school finance system. However, as the Legislative Analyst's Office (2011) points out, even if the current flexibility structures remain in place, California's educational system still faces a number of problems. We recommend a number of ways to address those problems in *California's New School Funding Flexibility* (2011), including thoroughly reviewing the state's categorical programs to determine which should be consolidated or eliminated, distributing flexible funds more equitably, and applying some restrictions to flexible funds as exemplified in block-granting. Undertaken thoughtfully, changes to the state's categorical funding system may prove to be a significant step toward a more rational, equitable, efficient, and transparent school finance system.

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