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Has School Finance Reform Been Good for California?

In 1971, California began to reform its system of public school finance. The impetus was *Serrano v. Priest*, a lawsuit brought by the Western Center on Law and Poverty. At that time, California school districts raised most of their revenue by taxing local property. Noting that property tax bases and school spending differed dramatically across school districts, the *Serrano* plaintiffs argued that the state's school finance system violated the equal protection clause of the Fourteenth Amendment. The courts agreed and ordered the state to equalize revenue across districts. Seven years later, California voters passed Proposition 13, which shifted control of the property tax from school districts to the state. Taken together, the *Serrano* decision and Proposition 13 transformed school finance from a locally funded system to one in which the state allocates the bulk of school revenues.

Has this transformation been good for California? In *For Better or For Worse? School Finance Reform in California*, Jon Sonstelie, Eric Brunner, and Kenneth Ardon answer this question by tracing the origins of school finance reform and assessing its chief consequences. Concluding that school finance reform has failed to achieve most of its original goals, the authors ascribe much of this failure to two factors: the reformers' imperfect understanding of the inequities under local finance and the effects of Proposition 13.

Serrano *and Proposition 13*

The *Serrano* plaintiffs correctly noted large disparities across school districts in per pupil spending. They erred, however, in presuming that these disparities were systematically related to race and income. Although many low-income and minority families lived in low-spending districts, just as many lived in high-spending ones. Thus, reducing revenue inequality at the district level did not help disadvantaged students as a whole.

The effects of Proposition 13 on school finance reform were less direct. Between 1970 and 1997, spending per pupil in California fell more than 15 percent relative to spending in the rest of the country. Some observers explain this decline by pointing to the growing ethnic gaps between the state's voters and its students. The authors suggest another cause, one that is linked to Proposition 13 and the shift from local to state finance. The local system relied on the property tax, about half of which was levied on commercial, industrial, and agricultural property. As a result, taxes on nonresidential property subsidized local homeowners and renters. By redirecting all property tax revenue to the state, Proposition 13 ended that subsidy and increased the cost of school services to homeowners and renters. This cost increase led to a relative decline in per pupil spending. In the aftermath of Proposition 13, the state distributed revenue more equitably across school districts, but it did so more by leveling down high-spending districts than by raising low-spending ones.

Forced to economize, school districts chose not to cut their teachers' salaries, thereby raising concerns that the teachers' unions in California were too powerful. After comparing these salaries to those in other states and to nonteaching salaries in California, the authors conclude that school districts responded more to market forces than to union power and that salary cuts would have seriously jeopardized their ability to attract and retain competent teachers. Rather than cut salaries, districts hired fewer teachers, which led to a dramatic increase in the state's pupil-teacher ratio. In 1997, that ratio was 38 percent higher than the average for other states.

Effects on Student Performance

In the 1970s and early 1980s, California's students performed as well as students in the rest of the country on standardized tests. Since that time, however, they have performed worse. Several reasons have been offered for this poor performance, including the high pupil-teacher ratio in California and the large percentage of students whose native

language is not English. After analyzing data on the backgrounds of students, however, the authors conclude that demographic differences account for only some of the performance gap between California's students and those in other states. Although the authors note that this poorer performance cannot necessarily be blamed on the switch to state finance, they maintain that the timing of the drop is suggestive.

The Reactions of Parents

Families have responded in various ways to the perceived decline in public school quality. Some have enrolled their children in private schools; others have donated time and money to public schools. The authors found that both reactions have been modest and mostly confined to high-income families. While private school enrollment rates rose from 14 to 21 percent among families in the top 10 percent of the income distribution, there were no increases at all among families in the bottom 60 percent of that distribution. Likewise, a few public schools in wealthy areas received more than $500 per student in voluntary contributions, but 90 percent of California's students attended schools in which such contributions amounted to less than $100 per pupil.

Families also respond to public school quality through their housing choices. If district quality had been equalized under state finance, homebuyers would not continue to pay large premiums for houses in desirable school districts. Yet the authors found a wide range of premiums across school districts in the two counties they studied. These disparities indicate that parents continue to perceive large differences in quality across school districts in those areas.

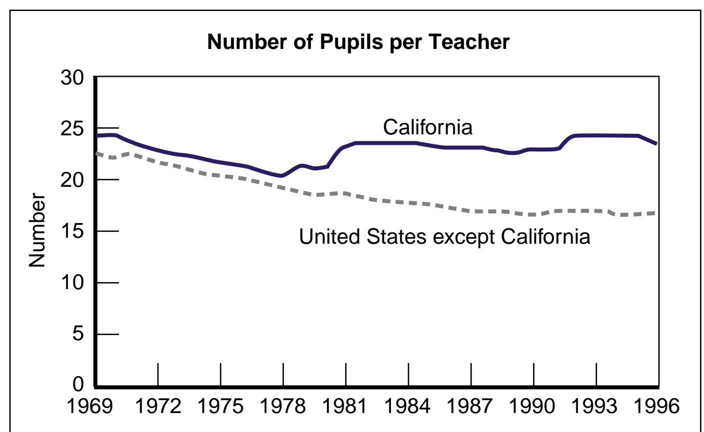
Policy Implications

Despite the poor outcomes associated with the shift to state finance, the authors note that it may be too early to judge school finance reform negatively. California has changed the way it finances its schools without changing the way it governs them. School boards continue to govern districts, but the state controls how funds are allocated. The authors outline two basic options for coordinating school governance and financing: shifting governance to the state level and devising a system of local finance consistent with the *Serrano* ruling.

One way to implement state governance is to eliminate school districts altogether. Such a system would replace legislative rulemaking with bureaucratic control, making it easier to allocate state resources according to need. This arrangement would also make it easier to hold teachers, principals, and schools accountable to state guidelines. Charter schools are another possibility. Authorized in 1992, charter schools operate according to their own goals and procedures, are exempt from most state regulations, and are entitled to block grants equal to what they would receive from a typical school district. As these schools proliferate, however, the state may come under increasing pressure to regulate them, again raising the question of whether schools can be truly autonomous without controlling their own revenue sources.

If local control is preferable to state governance, school districts could be allowed to raise their own revenue. According to the authors, this option would be compatible with the *Serrano* decision if differences in property wealth were effectively neutralized. For example, the state could distribute its aid so that similar tax rates would produce the same revenue per pupil, regardless of the district's tax base. To implement such a plan, however, voters would have to repeal tax restrictions imposed by Proposition 13.

Significant reform in either direction will not be accomplished easily. Until such reform is undertaken, however, California may have difficulty reversing the current pattern of low spending, large classes, and poor student performance compared to other states.



Beginning in the late 1970s, the pupil-teacher ratio in California rose 30 percent compared to the ratio in the rest of the United States. The increase coincided with the passage of Proposition 13 and the shift from local to state finance.

This research brief summarizes a report by Jon Sonstelie, Eric Brunner, and Kenneth Ardon, For Better or For Worse? School Finance Reform in California *(2000, 276 pp., $20.00, ISBN: 1-58213-018-3). The report may be ordered by phone at (800) 232-5343 [mainland U.S.] or (415) 291-4415 [Canada, Hawaii, overseas]. A copy of the full text is also available on the Internet (www.ppic.org). The Public Policy Institute of California is a private, nonprofit organization dedicated to independent, objective, nonpartisan research on economic, social, and political issues affecting California. This project was supported by PPIC through an Extramural Research Program contract.*

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