

## *How Should California Finance Its Schools?*

In May 1999, the California legislature charged a joint committee with expanding the California Master Plan for Higher Education, which has guided higher education since 1960, to include the state's elementary and secondary schools. According to the committee's chair, State Senator Dede Alpert, the chief reason for this expansion is to provide the legislature with a broad framework in which to place particular K–12 reform initiatives.

In April 2000, Senator Alpert and her staff asked the Public Policy Institute of California (PPIC) to conduct support research on adequacy-based school finance, alternative approaches to school governance, and local revenue options for school districts. PPIC commissioned reports and delivered them to the committee and its staff between August 2000 and April 2001. *School Finance and California's Master Plan for Education* brings together those papers and makes them available to more general audiences.

### *General Themes and Policy Precepts*

Several key themes emerge from the essays. *The first is the importance of learning from other states and their experiences.* In her essay on adequacy-based school finance, Heather Rose notes that California pioneered equity-based reform in the 1970s but was a relative latecomer to other movements in subsequent decades. In one of his two essays in the volume, Jon Sonstelie maintains that Oregon's Quality Education Model could be adapted to California's special circumstances. Julian Betts and Anne Danenberg urge the state to construct a Texas-style data system to track student achievement. Susanna Loeb's essay surveys local revenue options in other states, including the local income tax in Ohio. These and other examples highlight the potential benefits of looking at other states and learning from their policy successes and failures.

*The second theme is the importance of distinguishing state and local governance roles.* As fiscal and policymaking authority has shifted from local school districts to Sacramento, the state government must be especially clear about where its responsibilities begin and end. It must also divide these responsibilities effectively among its various policy actors and agencies. Lawrence Picus's essay reflects an emergent consensus that the state should set standards for school performance, assess that performance fairly, and provide school districts with the resources necessary to achieve adequate outcomes. The district's responsibility, in turn, is to determine how its schools can best achieve those standards. This delineation of responsibility offers a clear sense of accountability and prevents a stream of ad hoc policy changes from Sacramento that directly alter methods and practices at the school level.

*The third theme is the continued importance of probing links between school resources and student outcomes.* Under adequacy-based school finance, the state would provide the resources necessary to obtain adequate results. As Julian Betts and Anne Danenberg note, however, studies on school resources and student outcomes do not reveal a strong link between the two. As a result, defining an adequate level of resources is less a science than an art. Betts and Danenberg conclude that the weak relationship between inputs and outputs may very well reflect the need for better data collection in California. Until those data are collected and evaluated, however, adequacy-based approaches to school finance will require sound professional judgment along with the best data and analysis available.

*A fourth theme is the importance of local revenue options.* The *Serrano* decision forbids school revenue differences based on disparities in property wealth across districts, and Proposition 13 constrains property tax increases as well as new general taxes. But Sonstelie's second essay demonstrates

that the state can reconfigure the property tax to allow districts to raise additional money for specific local needs. Likewise, Eric Brunner's piece shows how communities can assess a new kind of parcel tax without violating Proposition 13 or *Serrano*.

### *Envisioning a New School Finance System*

These four themes form a starting point for developing a new system of school finance. Sonstelie's second essay outlines a system based on the notion that the state should ensure that school districts have resources adequate to meet its standards. That system is founded on the concept of base revenue—a per pupil amount a school district must have to obtain adequate resources. This amount would differ across districts for two reasons. First, resource costs differ significantly across the state. As Kim Rueben and Jane Herr demonstrate, the largest part of any district's budget, teacher salaries, shows large variations; for example, the average starting salary for teachers with a bachelor's degree and 45 additional units ranges from \$20,400 to \$41,095. Second, as Julian Betts and Anne Danenberg suggest, different students require different resources to meet state standards. The factors used to adjust base revenue would be few and based on objective assessments of resource costs. These adjustments would make categorical programs unnecessary.

Base revenue could be financed through a combination of state and local taxes. Districts could supplement base revenue subject to two conditions. The courts have held that the state must equalize tax bases across districts so that the same tax rate produces the same revenue per pupil in every district. This tax base equalization could be accomplished through a supplementary state aid program, in which the state makes up the difference between local supplementary revenue and the amount a district would raise if its supplementary tax rate were applied to a standardized tax base.

The second condition is a limit on the supplementary tax rate. The limit prevents large differences in supplemen-

tary revenue across districts and therefore maintains reasonable equity. It also supports the central role of base revenue. Without a limit, political support for base revenue could erode, as districts addressed their core needs through supplementary revenue. Furthermore, the limit itself gives the legislature feedback on the adequacy of base revenue. If base revenue were inadequate, most school districts would increase their supplementary tax rates to the limit, signaling the willingness of taxpayers to spend more on their schools. If most districts chose not to levy a supplementary tax rate, base revenue may be more than adequate, and the legislature could consider decreasing it.

### *Initial Steps*

If the state wishes to initiate a system along these lines, it could begin by taking three steps. First, it could develop a cost schedule and quality model for school spending. Although California has good data on some costs, it has not assembled the cost information needed to establish a base revenue. The second step is to develop a quality model. Once the state knows what the basic resources cost, it must consider the ways in which districts might combine them to provide an adequate education to their students.

The third step is to allow schools districts to generate local revenue more easily. The essays focus on three ways to do this: revamping the property tax, redesigning the parcel tax, and implementing a local income tax. Of these, property tax reform emerges as the most effective option because of the size and stability of the tax base. However, the state would have to study the potential effects of this reform on other local governments.

The editors of the volume maintain that these steps would lead to a sounder system of school finance. Such a system, they note, may be a necessary condition for improved academic achievement.

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*This research brief summarizes a report edited by Jon Sonstelie and Peter Richardson, School Finance and California's Master Plan for Education (2001, 250 pp., \$20.00, ISBN 1-58213-034-5). The report may be ordered by phone at (800) 232-5343 [U.S. mainland] or (415) 291-4400 [Canada, Hawaii, overseas]. A copy of the full text is also available on the Internet ([www.ppic.org](http://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.*

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