Selected Readings on California School Finance 2011

EdSource®
Clarifying Complex Education Issues®

Selected Readings on California School Finance 2011

Independent and impartial, EdSource® strives to advance the common good by developing and widely distributing trustworthy, useful information that clarifies complex K–14 education issues and promotes thoughtful decisions about California's public education system.

EdSource®
Clarifying Complex Education Issues®

520 San Antonio Rd, Suite 200 Mountain View, CA 94040-1217
650/917-9481 Fax: 650/917-9482 E-mail: edsource@edsource.org
www.edsource.org · www.ed-data.org

A not-for-profit 501(c)(3) organization, EdSource was established in California in 1977. Our Board of Directors includes leaders from education, business, and EdSource's three founding organizations: the League of Women Voters of California, the American Association of University Women–California, and the California State PTA.

EdSource addresses a wide audience—school board members, parents, school administrators and teachers, business people, media, legislators, and community leaders. They depend on EdSource for clear explanations of issues such as school finance, demographics, equity, assessment, and accountability. They know that a solid understanding of education, especially school finance, is essential to making sound decisions that affect the education of about six million California schoolchildren.

To learn more about our organization, please contact the EdSource office: 520 San Antonio Rd, Suite 200, Mountain View, CA 94040-1217; phone 650/917-9481; fax 650/917-9482; or e-mail edsource@edsource.org. Ask us:

for subscription information,

to be placed on our general mailing list,

to be added to our e-mail bulletin list.

Or visit our website, ***www.edsource.org****, which has a wealth of data, information, and analysis about California education issues. The website features a special section devoted to California school finance, which includes regular updates on state budget issues that affect education.*

CONTENTS

1. The Context
An Overview: Public Schools in California
A Chronology of School Finance: Legislation, Court Cases, and Initiatives

2. California's System of Funding Schools
The Basics of California's School Finance System
Proposition 98 Sets a Minimum Funding Guarantee for Education
System of Allocations
Funding for Facilities
Charter School Funding

3. The Current Budget
Challenging Times: California Schools Cope with Adversity and the Imperative To Do More
The Education Components of the Federal Stimulus

4. District Budgeting
Understanding School District Budgets
The School District Budget Process
Keeping California School Districts Fiscally Healthy
Local Revenues for Schools: Limits and Options in California

5. Comparing California
How California Ranks
How California Compares

6. Concepts of Finance Reform
How Much Is Enough? Funding California's Public Schools
Rethinking How California Funds Its Schools

7. "Getting Down to Facts" Research Study Summaries
Aligning School Finance with Academic Standards
Assessing the Costs of K–12 Education in California Public Schools
Efficiency and Adequacy in California School Finance: A Professional Judgment Approach
Financing School Facilities in California
Considering Special Education Adequacy in California
Curbing or Facilitating Inequality? Law, Collective Bargaining, and Teacher Assignment Among Schools in California
Teacher Compensation and Local Labor Market Conditions in California: Implications for School Funding

8. Resources
A Glossary of School Finance Terms
California Department of Education Data Guide
Ed-Data Guide

EdSource updated this edition of *Selected Readings* in January 2011.
Copyright 2011 by EdSource, Inc.

EdSource
Clarifying Complex Education Issues™

520 San Antonio Rd, Suite 200, Mountain View, CA 94040-1217
650/917-9481 Fax: 650/917-9482 E-mail: edsource@edsource.org
www.edsource.org · www.ed-data.org

Selected Readings on California School Finance

Chapter I
The Context

EdSource
Clarifying Complex Education Issues®

An Overview
PUBLIC SCHOOLS IN CALIFORNIA

In California, about 1,000 elected school boards, in concert with superintendents and other administrators, make decisions that shape the local schools, the programs for students, and the working environment for teachers and other employees. They approve a budget and choose the programs that are uniquely fitted to the school district. But they do this within a system that is created and firmly overseen by the state Legislature and governor, from the details of the Education Code to how much local property tax money will go to local schools.

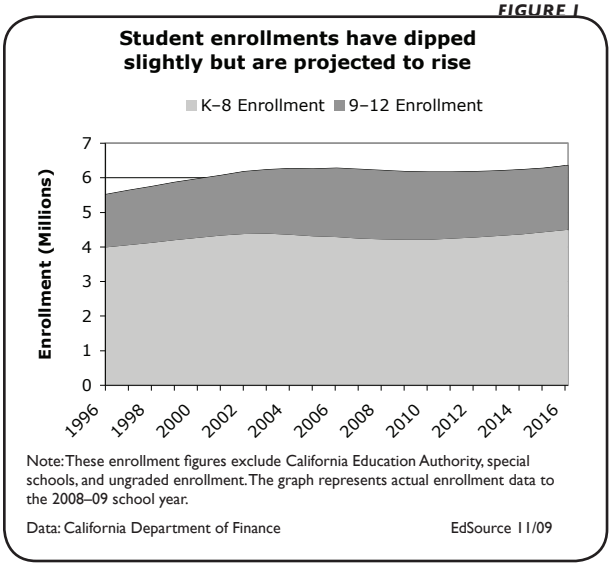
This overview of California's vast and complex K–12 public school system provides key information and data on its many aspects, from its size and diversity to its funding and reform debates.

California's K–12 public school system is mammoth

More than 6.2 million students attend a public school in California. That is 1.4 million more students than New York and Florida combined.

After more than two decades of growth, enrollment in public schools has been declining slightly since 2005–06. In 2008–09, statewide enrollment declined overall and in grades K–8, but it increased slightly in high school grades. (See Figure 1.)

FIGURE 1

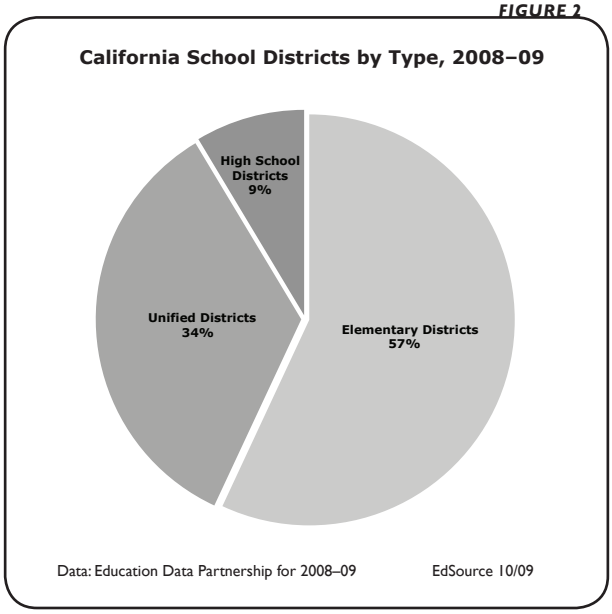


In 2008–09, 60% of all counties experienced declining enrollments, reducing their share of school funding, which is based on enrollment and attendance. For many counties, this decline has been ongoing. Altogether, 45% of the state's counties have faced declining enrollment on average from 2005–06 through 2008–09. And only 12 counties (21%) have experienced positive growth on average during those four years—including about half of the counties in the San Francisco Bay Area and a few counties in the Central Valley and in the northern part of Gold Country.

"Diverse" is the single best descriptor of the state and its schools

In 2008–09, 550 California school districts were elementary (kindergarten through 8th grade), 333 were unified (kindergarten through 12th grade), and 84 were high school (typically 9th through 12th grade). (See Figure 2.) In addition in 2008–09, the 58 county offices of education served almost 78,000 students; three state special and five California Education Authority (formerly California Youth Authority) local education agencies together enrolled more than 2,000 students; and 10 charter schools authorized by the State Board of Education served more than 4,000 students.

FIGURE 2



© Copyright 2010 by EdSource, Inc.

The size of school districts varies greatly. The smallest districts have just one school that serves fewer than 10 students. The largest district—Los Angeles Unified (LAUSD)—included 858 schools with 687,534 students in 2008–09. Overall statistics on California school districts in 2008–09 are shown in Figure 3 below.

FIGURE 3

Size of California Public School Districts, 2008–09

	% of Districts*	% of Students
Fewer than 500 Students	30% (mostly elementary districts)	1%
500 to 999	11%	1%
1,000 to 14,999	49%	37%
15,000 to 49,999	10% (mostly unified)	39%
50,000 and more	1% (10 unified)	21%

* Does not include county offices of education, state special school districts, and State Board of Education–authorized charter schools. Percentages do not add to 100% due to rounding.

Data: California Department of Education, DataQuest EdSource 11/09

Within these districts in 2008–09, California had almost 9,900 public schools that also varied a great deal in size. That total includes more than 800 charter schools operating more or less independently from districts. (See the box about charter schools on page 6.)

Many primary schools have between 300 and 800 students, but the largest serve more than 2,000 pupils. Middle schools (usually grades 6 to 8) typically serve from 400 to 1,300 students, but they range from fewer than 50 students to more than 3,000. On the whole, high schools are larger, with an average school serving between 250 and 2,500 students. Exceptions are the rule, however, with high schools ranging from fewer than 50 to more than 5,000 students.

By law, schools must be open for 180 days each year. But because of budget cutbacks, legislators and the governor approved a shorter school year of 175 days through 2012–13.

Because of budget cutbacks, legislators and the governor approved a shorter school year of 175 days through 2012–13.

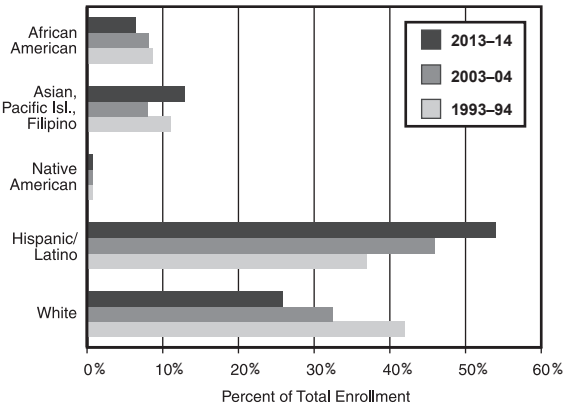
Schools usually start in late August/early September and end by mid-June, with midwinter and spring breaks plus national, state, and optional holidays (chosen locally). In 2007–08, about 909,000 students had an alternate school calendar, usually 60-day sessions followed by 20-day breaks. Sometimes these "year round" schools are created to address overcrowding. In that case, they are typically on a multitrack schedule in which the student body is divided into four or five tracks. At any one time, one track is on vacation. The number of schools on this schedule has been steadily declining. In 2007–08, about 442,000 students were in multitrack, year-round schools—half as many as were on this schedule four years earlier.

California is home to the nation's most ethnically diverse student body

Immigrant families who have chosen to live in California have been predominantly from Mexico, other Latin American countries, the Pacific Islands, and Asia. These immigrants have changed the look of the school population compared with just a generation ago. Figure 4 shows the change statewide. More recently, continued immigration and higher birthrates among Latinos are increasing their proportion of the state's population.

FIGURE 4

Immigration has increased the percentage of Hispanic/Latino students



Immigration and higher birthrates have increased the percentage of Hispanic/Latino students.

Data: California Department of Finance EdSource 12/08

In many classrooms in the state, particularly in urban areas, English is not most students' primary language. In 2006–07, schools identified more than a third of the students in kindergarten through second grade as English learners. Altogether, about 25% of California's K–12 students are English learners. Although Spanish was the primary language of almost 85% of English learners in 2008–09, the rest of these students speak a wide variety of other languages. (See Figure 5 on page 3.)

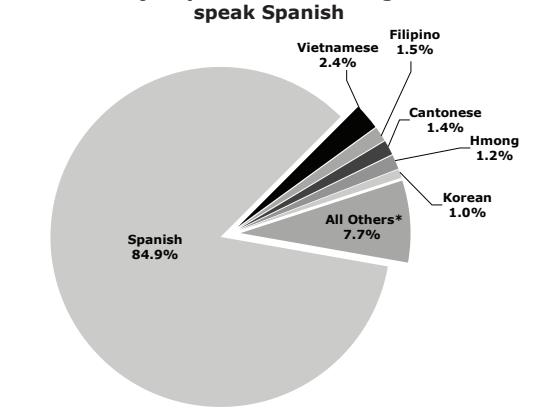
Ensuring that all students become fluent in English is a necessary, though formidable, task. Until Proposition 227 passed in 1998, schools used a variety of approaches to teach non-English speaking students. These ranged from instruction in the student's primary language to no special services at all. Proposition 227 requires that students be taught almost entirely in English. However, some schools have retained some form of bilingual education. Parents have asked for waivers to continue a program, or teachers have adapted how they help students learn English. The issue remains highly controversial, and researchers are working to better understand what works best for English learners.

Another large group of California students (about 11%) need special attention because of physical, emotional, or educational disabilities. In addition, students from low-income

© Copyright 2010 by EdSource, Inc.

families make up half of the school population. These young people are at risk of not succeeding in school because of the effects of poverty and are more likely to be African American, Hispanic, and Native American. A disproportionate number of these students drop out of high school.

FIGURE 5



*This category includes more than 50 other CDE-identified languages, which comprise 7.7% of the total. The percentages do not add to 100% due to rounding.

Data: California Department of Education (CDE) EdSource 10/09

California's school finance system is extremely complex

California's highly complicated school finance system has evolved over the past three decades.

Revenues for K–12 education come from federal, state, and local resources

In typical years, each school district's income comes from five sources:

- State funds (60% of K–12 funds in 2007–08);
- Local property taxes (23%);
- Federal funds (10%);
- Local miscellaneous revenues (6%);
- California State Lottery (1%).

Since the tax initiative Proposition 13 passed in 1978, the state Legislature and governor have controlled the amount of local property taxes allocated to school districts. School boards and local voters have very limited ability to increase revenue for local schools.

Voter-approved Proposition 98, passed in 1988, guarantees a minimum amount of money for schools. The minimum is adjusted downward in years when growth in the state General Fund is low. State leaders can also suspend Proposition 98 with a two-thirds vote. In both cases, the state constitution requires that the resulting shortfalls in K–12 funding eventually be restored. The state now owes K–12 schools and community colleges $10.1 billion.

The state now owes K–12 schools and community colleges $10.1 billion.

A school district's income is based on its students

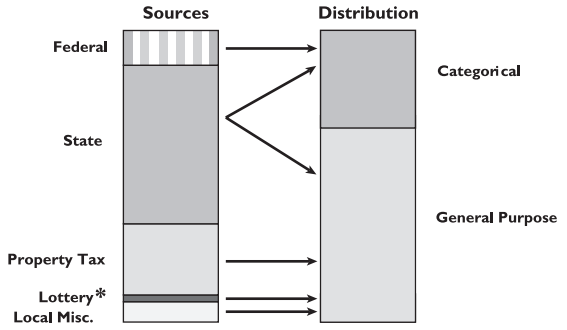
How much each district actually receives from the state generally depends on four factors:

- General purpose (revenue limit) per-pupil allocation determined by formula for each district;
- Number of students (technically, average daily attendance, or ADA);
- Characteristics of those students and their families, which qualifies districts for extra state and federal funds; and
- Specific programs the district operates that qualify for additional funding.

Typically, about two-thirds of a district's income is the "revenue limit" or general purpose allocation comprised of property taxes and state funds. This is the money that can be spent at the district's discretion—within the constraints of contracts with employees and state laws and regulations. (See Figure 6.)

The amount of money school districts receive varies across the state, though per-pupil general purpose funding in the same type of district (elementary, high school, or unified) is typically within a narrow range (about $450), though there are exceptions. In addition, the smallest districts of each type receive higher amounts. From 2007–08 to 2009–10, average revenue limit funding for unified school districts statewide dropped 14%, from $5,821 to $4,984 per pupil.

FIGURE 6



Together, about 30% of state and federal allocations flow to districts as categorical funds. However, through 2012–13, California policymakers have given districts a lot of flexibility in how they spend some of their state categorical funds.

* A small portion of lottery funds is earmarked for instructional materials.

EdSource 12/09

An anomaly in the school finance system is the "basic aid" or "excess revenue" district in which property taxes fill up or even exceed the district's revenue limit. These districts (about 100 of them) are allowed to keep the excess revenues.

© Copyright 2010 by EdSource, Inc.

From 2007–08 to 2009–10, average revenue limit funding for unified school districts statewide dropped 14%, from $5,821 to $4,984 per pupil,

Both the state and federal governments provide "categorical aid" for special programs, which together represent about 30% of district revenues on average. But this earmarked money—with limitations on how it may be spent—can be a smaller or larger proportion of a district's budget depending on the characteristics and special needs of its students and families and the programs the district operates. The largest state categorical aid program is Special Education, and the largest federal programs are Title I (which provides funds for economically disadvantaged students) and Child Nutrition (mainly school meals).

Each district receives the same amount of money per student from the lottery, which was $123.27 in 2008–09.

Federal and state policymakers respond to economic downturn

In 2008–09 and 2009–10, extraordinary economic circumstances forced temporary changes in some aspects of school funding, including an infusion of federal monies and the state allowing districts to divert funds from 40 categorical programs. See *School Finance 2009–10* (Chapter 3) for details.

Local districts raise some additional revenues

All districts also have some local miscellaneous revenues from, for example, cafeteria sales, interest income, or lease of surplus properties. In addition, some districts have strong fund-raising programs or other special sources of income. With a few exceptions, the overall amount is typically a small portion of a district's budget.

Some school districts also generate additional operating money by passing a voter-approved, uniform tax on each parcel of land within district boundaries. Schools commit to how the tax will be used; for example, to keep class sizes small or add a music program. Although the required two-thirds vote is difficult to obtain, more than half (261 out of 486) of parcel tax elections from 1983 through June 2009 passed, based on the best available information.

In addition, districts can also call elections to authorize the sale of general obligation (G.O.) bonds, which can only be used for constructing or modernizing schools. In the past, these elections also needed a two-thirds vote for approval; but in November 2000, California voters passed Proposition 39, which reduced the threshold to 55%. Districts can now choose between two types of bond elections, requiring either two-thirds or 55% approval from voters. The reduction in the voter-approval threshold has made it easier for districts to successfully pass bonds. However, when districts choose to lower the threshold, the law requires them to limit the bond amount and face tougher accountability measures. Based on the best available information about G.O. bond elections:

- From 2001 through 2008, 538 districts sought 55% approval and 449 (83%) of those elections succeeded.
- From 1986 through 2008, 940 districts sought two-thirds voter approval, and 516 (55%) were successful.
- Altogether, 1,478 G.O. bond elections were held from 1986 through 2008, and 965 (65%) passed.
- Local bond elections generated a total of about $57.4 billion from 1998 through 2008.

Given the economic climate of the nation, the success of district elections held in the November 2008 election was particularly noteworthy. Voters approved more than 100 G.O. bond, parcel tax, and school improvement facility district (SFID) measures. (SFIDs tax just a portion of a district—often new housing developments—based on the value of the property.)

Since the mid-1990s, standards-based reform has been the driving force behind the state's education policy

During the past decade, the state has worked to align all the key elements of California's K–12 public education system—from curriculum to tests—to state-adopted academic content standards that were set in the late 1990s. The standards describe what students statewide should know and be able to do at each grade level.

The testing system focuses on California Standards Tests

The state's testing system reinforces this standards-based approach. In 1997, the Legislature enacted the Standardized Testing and Reporting (STAR) program, which is given to students in grades 2–11 each spring. The testing system has evolved over time. The largest component of STAR is the set of California Standards Tests (CSTs) based on the state's academic content standards. They cover English language arts, math, history/social science, and science.

In 2001, the state introduced the California High School Exit Exam (CAHSEE), which is also based on state standards in English and math. Beginning with the class of 2006, students must pass this exam to earn a high school diploma.

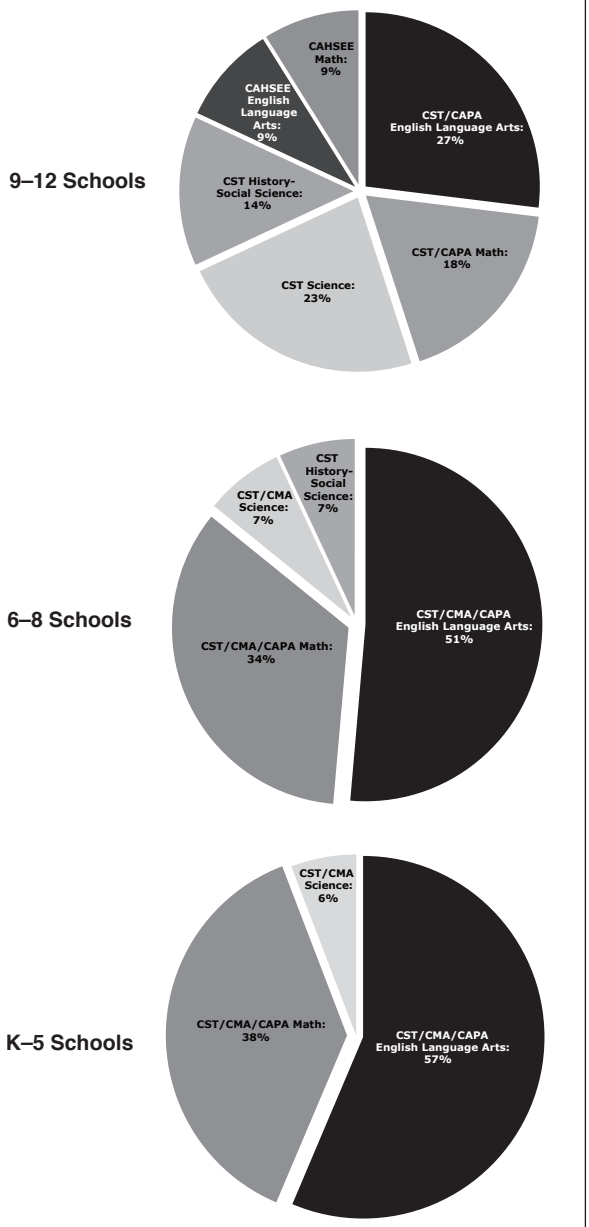
Students in grades 2–11 with significant cognitive disabilities take the California Alternate Performance Assessment (CAPA), which is based on the building blocks of California's standards. California Modified Assessment (CMA) tests are given to students with disabilities in grades 3–8 whose Individualized Education Program (IEP) team has determined that neither the CAPA nor the CST is the appropriate assessment.

Beginning in 2009–10, Special Education students do not have to pass the CAHSEE to graduate. In 2008, legislators asked the State Board of Education to establish by Oct. 1, 2010, alternative means for students with disabilities to satisfy the CAHSEE requirement.

© Copyright 2010 by EdSource, Inc.

FIGURE 7

2009/2010 Academic Performance Index (API) Cycle



The actual weight given to a test for any particular school will vary from the figures above depending on which tests are taken by what percentage of students at the school. After each API cycle, the California Department of Education may make adjustments in which tests are given.

Note: Schools with different grade configurations have different subject weights. For example, in the typical K–8 school, English language arts is weighted 54%, math 36%, science 7%, and history-social science 3%. The percentages in the pie charts above may not add to 100% due to rounding.

Data: California Department of Education (CDE) EdSource 8/10

The state and federal governments are holding students and schools accountable

In 1999, California lawmakers passed the Public Schools Accountability Act (PSAA), which holds public schools accountable for the academic performance of their students. The centerpiece of the PSAA is the Academic Performance Index (API), a single-number summary of the performance of a school's students on the state's standardized tests. The API is used to publicly rank schools and monitor their improvement. (See Figure 7.) The original focus of the PSAA was to provide incentives for schools to improve.

The PSAA guided California's accountability reform effort until 2002, when two things occurred. One was the state's budget crisis, which cut the funds available for monetary rewards for schools that improved on the API and reduced the resources available to help struggling schools. Another was the passage of the federal No Child Left Behind Act (NCLB) in 2001, which created a new metric for school performance. Thus as the funding shifted, so did the focus, with NCLB starting to play a stronger role in the state's accountability system in 2002–03.

Under NCLB, all students are expected to become proficient in English language arts and math

NCLB is the 2001 reauthorization of the Elementary and Secondary Education Act (ESEA). Under NCLB, states must make "adequate yearly progress" (AYP) toward the goal of having all students become proficient in English language arts and math by 2013–14. Each state determines its own method of measuring proficiency and its own timetable for reaching this goal. However, the federal government must approve the state's plan.

In California, elementary and middle school students are considered proficient if they achieve a score of proficient or advanced on California Standards Tests in English and math, a standard policymakers say is high. High schools are measured by the percentage of 10th graders who reach a proficient score on the CAHSEE, a score that is higher than that required to pass the exam. In addition, significant subgroups within a school—based on ethnicity, poverty, disabilities, and status as English learners—must reach the proficiency targets. California's interim targets on the timetable for meeting the 100% proficiency requirement increased slowly for the first few years but began rising quickly in 2007–08. Schools and districts must also achieve a certain API score or improve by one point to make AYP. And high schools and districts that include high schools must reach specific targets or show progress on graduation rates.

In addition, schools and districts must test 95% of their students, including 95% of significant subgroups, to make AYP. To be considered "significant," a subgroup must include either 100 students or 50 students if they represent at least 15% of the overall school population.

If schools that receive Title I funding under NCLB do not make AYP, they enter an intervention program called Program Improvement (PI). About 69% of elementary, 59% of middle, and 43% of high schools in California received Title I funds in 2008–09.

© Copyright 2010 by EdSource, Inc.

Schools enter PI if they do not make AYP for two years in a row on the same indicator (English or math) and for any subgroup. During the first year of PI, the district must do a number of things, including offering students a chance to transfer to district schools that are not in PI and providing free transportation to those schools.

Each successive year a school does not reach the proficiency target, there are additional consequences, ranging from a requirement to offer tutoring to low-income students in Year 2 to restructuring the school in Year 5. Schools exit PI if they make AYP for two years in a row.

In 2004, California introduced PI for school districts and county offices of education that receive Title I funding. By September 2009, almost a third (298) of the 936 local education agencies receiving Title I funds were in PI.

Complying with NCLB has presented problems

With California's benchmarks for proficiency rising rapidly, more and more schools and districts are entering PI. California is not the only state facing what is quickly becoming a dysfunctional approach toward school improvement. Congress has not yet reauthorized ESEA, which was due to be done in 2007. But the federal government has revised some regulations in advance of the reauthorization.

The federal government has revised some regulations in advance of the reauthorization of ESEA.

Demanding state and federal expectations require that the system have both the will and capacity to improve

The will and capacity to improve requires the right resources, most notably human resources.

Skilled educators are central to the effort

School districts and schools need highly qualified, well-prepared educators, including both teachers and administrators. There are several facets to this issue: the availability of a sufficient supply of well-prepared educators; the need to ensure that schools serving students with the greatest needs have skilled, experienced educators; and the provision of ongoing professional development.

Throughout the 1990s and up until about 2005, California faced dramatic shortages of fully credentialed teachers. Several state policies have helped reduce this problem, such as new recruitment programs, a successful approach to teacher induction that keeps more new teachers in the profession, and the streamlining of the credentialing process. In addition, a demographic shift reversed the rapid growth in student population that characterized the state for many years. In 2008–09, just 4% of the state's teachers were less than fully certified. However, the state still faces shortages in some areas, such as in Special Education and low-performing schools.

The state has also been inconsistent in its support for professional development for teachers. After a large investment in 1999 and 2000 related to the adoption of new standards and curricula, many of the professional development programs had fallen victim to budget cuts by 2002. The dual

Charter schools offer an alternative

Charter schools have some freedom from top-down state or district policies. A charter school operates independently under a performance agreement with a chartering authority, such as a school district, a county office of education, or the State Board of Education. The performance agreement spells out the school's education program, goals, and other features. Charters are approved for up to five years at a time and can be closed for failure to meet their promises regarding student performance or for financial mismanagement.

California first enacted its charter school legislation in 1992. Since then, the number of charter schools has been steadily growing. In 2009–10, the state had more than 800 active charter schools serving about 341,000 students (more than 5% of the state's public school population), according to the California Charter Schools Association. Some of these schools were in charter districts, in which every school in the district is a charter school. There were nine such districts in 2007–08.

Groups of educators, parents, or community members can start a charter school. Nonprofit and for-profit organizations, universities, or other agencies may operate these schools. Sometimes a school community decides to turn its regular public school into a charter. Those "conversion schools" make up less than 20% of all charters in California. The other 80%-plus opened as charters and are called "start-up" schools. In either case, districts must make facilities available to a charter school operating in the district and serving a minimum of 80 district students.

Charter schools receive general purpose funds on a per-pupil basis from the state and federal governments either directly or through their chartering authority. They also receive extra funding for students who are English learners or from low-income families. Instead of state categorical funds, charters receive a block grant based on a per-pupil amount and thus have more flexibility than noncharter schools in how the money is spent. Charter operators may also apply for funds from state and federal programs that are not included in the block grant, but they then must meet the requirements attached to those funds. Some charter schools receive less funding than other schools serving comparable populations, in part because charters do not always apply for these categorical funds. Other charter schools are successful at obtaining supplemental funds through independent fund-raising, grants, and corporate sponsors.

© Copyright 2010 by EdSource, Inc.

FIGURE 8

Ratio of Staff to 1,000 Pupils by Position, Fall 2007–08

	California Rank in U.S.	U.S. Ratio	California Ratio	% of U.S. Ratio
Total staff to students	49	128.1	93.2	73%
All professional (certified) staff to students	50	72.1	52.3	73%
Total district staff (including classified staff)	37	6.4	5.3	83%
District officials/administrators	47	1.2	0.5	40%
Total school staff (including classified staff)	50	96.5	71.0	74%
Certified school staff only	50	70.9	51.9	73%
School principals & asst. principals	48	3.2	2.3	72%
Guidance counselors	50	2.1	1.2	58%
Librarians	51	1.1	0.2	18%
All teachers	50	64.5*	48.1*	75%
Elementary teachers (grades 1-8)	33	49.8	48.4	97%
Secondary teachers (grades 9-12)	51	83.9	42.8	51%

*These numbers translate into a student/teacher ratio of 20.8 students to 1 teacher for California and 15.5 to 1 for the entire U.S. Only Utah has a higher student/teacher ratio than California.

Notes: The numbers in this table are based on fall enrollment data and include pre-K public school students and their teachers. NCES estimated that there were 68,002 pre-K students and 4,110 pre-K teachers in California in 2007–08. If the pre-K students and teachers are not included, California's student/teacher ratio is still 20.8.

The District of Columbia is included among the states.

The "Total staff" row includes all district and school staff plus those who fall under the NCES category "All Other Support Staff."

Data: National Center for Education Statistics (NCES) Common Core of Data, 2007–08; accessed 12/1/09.

challenges of developing effective professional development and paying for it continue to be serious for California.

California's educators also face a daunting workload. Overall, the state's staff-to-student ratio was just 73% of the national average in 2007–08, according to the National Center for Education Statistics (NCES). California students have fewer teachers, counselors, librarians, school administrators, and other adults available to help them learn. For example, on average, a California school of 1,000 students had 2.3 school site administrators (principal or assistant principal) in 2006–07. Nationally, the average was 3.2 administrators. The same school in California had 48 teachers compared with a national average of almost 65—three teachers in California for every four in the United States. The differences are even more dramatic for district officials. On average, a California school district with 10,000 students would have five district officials/administrators compared with 12 in the typical district in the United States. (See Figure 8.) And California still faces shortages in qualified school principals and district leaders.

Despite fewer resources, pressure to reform California education continues

However, dwindling state funds have forced districts to cut back in staffing as well as in other areas, such as the number of school days and summer school. In this era of scarcity, some public education advocates have turned to the courts. Two complementary lawsuits filed in mid-2010—*Robles-Wong v. California* and *Campaign for Quality Education (CQE) et al. v. California*—charge that the state's current approach to school funding is unconstitutional. The complaints argue that California needs to revamp its school finance system to make it possible for all students to reach the rigorous academic goals set by the state. Although lawsuits typically take years to wind their way through the legal system, *Robles-Wong* and *CQE* may serve as catalysts for reform efforts to increase the productivity of public education by determining and investing in effective practices.

At the same time, the federal government will need to reauthorize its vision for public education—the Elementary and Secondary Education Act (ESEA)—and is using Race to

© Copyright 2010 by EdSource, Inc.

the Top competitive funding to keep the pressure on schools to improve. The goal of President Barack Obama's administration is for all students to graduate from high school ready for careers and college. And to that end, his administration has supported developing national ("Common Core") standards in English and math, which the majority of states, including California, have agreed to implement.

Adding to the current volatility, a new governor and superintendent of public instruction take over in January. They face the unenviable task of trying to build a consensus on how to help schools meet rising expectations with leaner budgets—in other words, how to help them do more with less.

© Copyright 2010 by EdSource, Inc.

520 San Antonio Rd., Suite 200, Mountain View, CA 94040-1217 · 650/917-9481 · Fax: 650/917-9482 · edsource@edsource.org

www.edsource.org · www.californiaschoolfinance.org · www.ed-data.k12.ca.us

EdSource®
Clarifying Complex Education Issues™

A CHRONOLOGY OF SCHOOL FINANCE:
LEGISLATION, COURT CASES, AND INITIATIVES

1972 - Senate Bill 90

The Legislature established "revenue limits," a ceiling on the amount of general purpose money each district can spend per pupil. The 1972–73 spending level became the base amount in determining each district's annual revenue limit. This was the beginning of the shift from local to state control of school finance.

1977 - *Serrano v. Priest*

In the case filed originally in 1968, the California Supreme Court eventually ruled the system of school finance inequitable and ordered the Legislature to draft a plan to equalize per-pupil expenditures for all districts.

1977 - Assembly Bill 65

The Legislature initiated a "long term" solution to the *Serrano v. Priest* decision through a complicated reallocation of taxes. It also established the School Improvement Program (SIP) and several other programs.

1978 - Proposition 13

This constitutional amendment approved by the voters limits the property tax rate to 1% of the assessed value and annual property tax increases to 2%. Any new taxes must be approved by two-thirds of the voters.

1979 - Assembly Bill 8

In response to Proposition 13, the Legislature established a formula for dividing property taxes among cities, counties, and school districts. To comply with the *Serrano* decision, more money was allocated to lower-spending districts while higher-spending districts were "squeezed."

1979 - Gann Limit

Voters approved a constitutional limit on governmental spending at every level in the state, including school districts. No agency's expenditures can exceed its Gann limit, which is adjusted annually for changes in the population and the lesser of U.S. CPI or California per capita personal income. (Index was changed by Proposition 111, 1990.)

1983 - Senate Bill 813

This major "reform" legislation added many categorical programs, more rigorous graduation requirements, longer school day and year, and statewide curriculum standards.

1984 - Lottery Initiative

Approved by a strong majority of voters, the lottery distributes a minimum of 34% of its revenues to all educational institutions (elementary through college) on a per-pupil basis. Proceeds from the lottery add about 2% to school district revenues.

1988 - Proposition 98

Narrowly passed by voters, this initiative guarantees a minimum funding level for schools; other provisions established school "report cards," a "prudent" state reserve, and changes in the distribution of state revenues that exceed the Gann limit.

1990 - Proposition 111

Included in this legislative ballot measure was a change in the inflation index for the Gann limit calculation, effectively raising the limit. Additionally, the funding guarantee for education (Prop 98) was adjusted downward for years of low revenue growth.

1991 - Assembly Bill 1200

This legislation put county offices of education in charge of reviewing districts' financial statements and certifying their financial viability. It also created the state Fiscal Crisis & Management Assistance Team (FCMAT). Assembly Bill 2756 (2004) required the state to update oversight standards and strengthen the district budget review process.

2000 - Proposition 39

This ballot measure changed existing law that required school districts to win two-thirds voter approval for school construction bonds. The new law authorizes 55% voter approval (with added requirements involving financial and performance accountability) as an option to two-thirds approval.

2004 - *Williams v. California*

This lawsuit, originally filed in 2000, charged that the state had failed to give thousands of children the basic tools necessary for their education. The 2004 settlement included accountability measures, extra financial support, and other help for low-performing schools. It also required all schools to report the condition of their facilities, teacher misassignments and vacancies, and textbook availablility.

© EdSource 2005

520 San Antonio Rd., Suite 200 • Mountain View, CA 94040-1217 • 650/917-9481

Selected Readings on California School Finance

Chapter 2

California's System of Funding Schools

EdSource® Clarifying Complex Education Issues®
Q & A
JANUARY 2009

The Basics of California's School Finance System

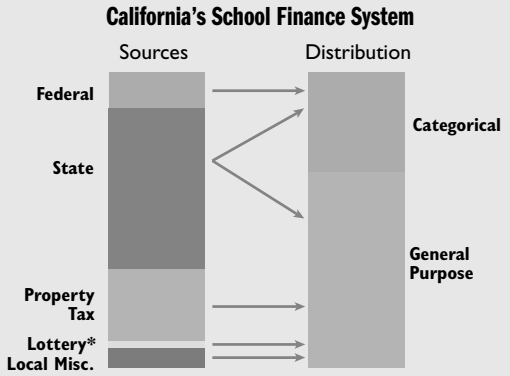
Every summer, the California Legislature and governor decide how much money will go to kindergarten through 12th grade (K–12) public education and how it will be divided among school districts, county offices of education, and the California Department of Education. A series of voter-approved initiatives provide significant restraints on both revenue options and how much funding must go to public schools. Although some changes occur each year, the system has looked about the same for more than 25 years.

What are the sources of district operating funds?

The column on the left of the diagram below shows the five sources of operating funds for schools in California:

- The federal government contributes about 10% of the education budget.
- About 60% of the funds are from the state—generated by business and personal income taxes, sales taxes, and some special taxes.
- Local property taxes are a little less than 23% of all funds. The Legislature and governor determine what part of these revenues goes to schools.
- The tiny line near the bottom of the column—less than 2% of the total, or about $150 per student—is from the California Lottery.
- Miscellaneous local revenues are about 6% of the total. These come from a variety of sources, such as special elections for parcel taxes (needs a two-thirds vote for approval); contributions from foundations, businesses, and individuals; food service sales, and interest on investments.

These simple boxes tell the whole story: there are no other sources of funds to run California's K–12 public schools.



About a third of the state's allocations and all of the federal ones are earmarked for special uses.

EdSource 1/09

How are the funds distributed to local school districts?

The column on the right shows how the different sources feed into school districts' operating budgets. Currently, about two-thirds of the money is for general purposes and almost one-third is earmarked for special purposes or categories of students.

Each district has its own particular combination of federal, state, and local sources. The amount depends on:

- the average number of students attending school during the school year (average daily attendance or ADA);
- the general purpose money the district receives for each student (its "revenue limit"), and
- the support for specific programs for which it qualifies ("categorical aid").

The miscellaneous and lottery revenues provide less than 8% of funding statewide. But this money is important to school districts because few restrictions are placed on its use. In some districts, this income represents a significant source of discretionary funds.

How is the amount that goes to each school district determined?

The Legislature established revenue limits at roughly what each district spent on general education programs in 1972, and it has adjusted them for inflation since then. The *Serrano v. Priest* court case, decided in 1976, had the net effect of making districts' general purpose money more nearly equal per pupil in each type of district (elementary, unified, high school). Since the late 1990s, revenue limit equalization has been an intermittent issue, and various strategies have been implemented when funding was available. Revenue limits are now within about a $450 range for school districts.

A district's revenue limit can be increased only by legislation, not by the school board, superintendent, or local voters. When property taxes rise, most schools do not directly benefit. The additional income goes toward the revenue limit, and the state's share is reduced proportionately. In about 60 of the

EdSource® is a not-for-profit 501(c)(3) organization established in California in 1977.
Independent and impartial, EdSource strives to advance the common good by developing and widely distributing trustworthy, useful information that clarifies complex K–12 education issues and promotes thoughtful decisions about California's public school system.

almost 1,000 school districts, however, property taxes fill up or exceed the revenue limit. These districts are allowed to keep their excess property tax revenues.

Categorical aid is distributed by the state and federal governments according to the needs of the children in the district and the special programs for which the district qualifies. This aid is quite substantial in some districts and minimal in others. Since the 1960s, court decisions, legislative priorities, and pressure from interest groups have created a wealth of categorical programs.

Funding for some programs can be used only to provide specific services, such as school lunches, or to serve the needs of particular students, generally those who were traditionally underserved. The largest of these programs is Special Education, which provides funds for extra services needed to educate students with disabilities. Some programs are completely voluntary. Others provide money to help districts pay for services they are required by law to provide. Still others are incentive programs intended to encourage districts to implement a specific program or reform, such as California's K–3 Class Size Reduction program.

Since the late 1990s, state policymakers have made some attempts to consolidate and simplify categorical programs. But that has been balanced by their tendency to create new programs when extra funds are available.

Do California schools receive enough funding?

In California, the question of funding adequacy consistently underlies discussions about improving public schools. Many people point to comparisons with education funding in other states to say California's funding is insufficient.

For almost three decades, this state's expenditures per pupil have trailed the national average. The precise amount varies from year to year, depending on a variety of economic factors and policy decisions among the 50 states. Since 1996–97 the state's expenditures have ranged from 87% to 96% of the U.S. average, depending on the year.

In addition, the number of personnel California schools are able to hire is substantially lower than is true in most of the country. California has a high cost of living, and its residents' salaries are also consistently near the top.

The combination of below average per-pupil expenditures and above-average salaries results in some of the lowest ratios of staff to students in the country. On average, California school districts have about three-fourths as many adults available—and three-fourths as many teachers—as is true on average in the nation. The numbers of school site administrators, district administrators, counselors, and librarians have historically been even lower.

What can California do to improve its funding system?

There are many critics of the state's funding system, and the debate about school finance has intensified.

Some people focus on how much money schools receive, and others worry about how fairly the funds are distributed. A serious and compelling question is whether schools in this state have the resources they need to meet California's demanding academic goals—in particular the extra investment that may be necessary to improve the achievement of the state's English learners, low-income students, and students with disabilities. Some people advocate for greater flexibility for local school districts and schools. Others worry about how to hold them more accountable for spending their resources appropriately and in ways that improve student achievement.

Dealing with these concerns is made more difficult by the complexity of the state's school finance system. A system that was simple and transparent might better enable the public to understand how much money their local schools receive, how they spend it, and who is responsible for those decisions. It could also make it easier for policymakers to evaluate the impact various investments have on student performance and adjust school expenditures accordingly.

How do I find out more?

- For more detailed information and tools for understanding and explaining California school finance, go to: www.edsource.org/iss_fin_tools.html
- For detailed financial data on districts, counties, and the state, go to the Ed-Data Partnership website: www.ed-data.k12.ca.us
- For information and publications about California's education issues, go to EdSource's website: www.edsource.org

© Copyright 2009 by EdSource, Inc.

Reprints permitted with credit to EdSource. For a Spanish version, go to: www.edsource.org/espanol.html

520 San Antonio Rd, Suite 200, Mountain View, CA 94040-1217 ■ 650/917-9481 ■ Fax: 650/917-9482 ■ edsource@edsource.org
www.edsource.org ■ www.ed-data.k12.ca.us

EdSource® Clarifying Complex Education Issues®
POLICY BRIEF

MARCH 2009

Proposition 98 Sets a Minimum Funding Guarantee for Education

Proposition 98, passed by voters as an amendment to the California Constitution in 1988, is designed to guarantee a minimum level of funding for public schools and community colleges that at least keeps pace with growth in the K–12 student population and the personal income of Californians and at best increases the amount schools receive. It was revised in 1990 by Proposition 111. Proposition 98 dollars are state funds raised primarily through income, sales, corporate, and capital gains taxes, combined with local property tax revenues. They represent about 72% of the funds that K–12 schools receive.

The minimum spending level under Proposition 98 is determined by one of three "tests" or formulas, which are described in detail in the table below.

Several factors influence which test is used to set the minimum guarantee, but the most important are the annual changes in statewide K–12 student attendance, per capita personal income, and per capita General Fund revenues. (The General Fund is the state's largest pot of money and is not dedicated to one specific program.)

Understanding the Three Tests of Proposition 98

TEST 1 **Percentage of General Fund Revenues** Times used: 2	**Requirement** K–14 education must receive a minimum percentage of General Fund revenues, currently about 41%. **When is it operative?** When it would provide more money than Test 2 or 3. It has been used only twice, in 1988–89 and under the revised 2008–09 budget passed in February 2009.
TEST 2 **Adjustment Based on Statewide Personal Income** Times used: 12	**Requirement** K–14 education must receive at least the same amount of state aid and local property tax dollars (collected locally but the distribution among local governments is determined by the state) as received in the prior year, adjusted for changes in K–12 attendence and per capita personal income. **When is it operative?** Basically, when General Fund revenues experience normal or strong growth during the prior year. (Specifically, it is used when the percentage growth in state per capita personal income is less than or equal to the percentage growth in per capita General Fund revenues plus 0.5%.)
TEST 3 **Adjustment Based on Available Revenues** Times used: 7	**Requirement** K–14 education must receive at least the same amount of state aid and local property tax dollars as received in the prior year, adjusted for changes in K–12 attendence and per capita General Fund revenues, plus 0.5% of the prior year Proposition 98 spending amount. **When is it operative?** Basically, when General Fund revenues fall or grow slowly during the prior year. The intent is for the K–14 education funding requirement to be responsive to reduced revenue. (Specifically, it is used when statewide per capita personal income is greater than the percentage growth in per capita General Fund revenues plus 0.5%.)
SUSPENSION Times used: 1	Proposition 98 can be suspended for a year with a two-thirds vote of the Legislature and concurrence of the governor. If suspended, policymakers have great discretion as to the level of funding they provide. It has been used only once, in 2004–05.
MAINTENANCE FACTOR	If Test 3 is used, or if Proposition 98 is suspended, the amount saved (the difference between what Test 2 would have provided and what was provided) must be restored over time to the minimum guarantee level, beginning in the next year in which the percentage growth in per capita General Fund revenues exceeds the percentage growth in per capita personal income.
"SETTLE UP"	When state leaders craft a budget for the upcoming fiscal year, they must estimate what the minimum Proposition 98 spending level will be before the fiscal year starts. If, during the course of the fiscal year, the estimate turns out to be too low, the state must later make up the shortfall. The amount of the shortfall is often referred to as the "settle up" amount.

© Copyright 2009 by EdSource, Inc. *Reprints permitted with credit to EdSource.*

520 San Antonio Rd, Suite 200, Mountain View, CA 94040-1217 ■ 650/917-9481 ■ Fax: 650/917-9482 ■ edsource@edsource.org
www.edsource.org ■ www.ed-data.k12.ca.us

System of Allocations

In California, the state controls not only how much funding goes to K–12 education, but also how those funds are allocated. Out of the revenues available to education, most of the funds go to school districts to pay for the cost of operating schools that serve students in kindergarten through 12th grade. However, a large portion of the funding goes to other agencies. And some of the funds pay for services outside K–12 education such as after-school programs, preschool, and adult education.

The system of allocations involves a multilayered and interlinked network of agencies that have responsibility for administering public education in California. One way to think about this system is to picture a map of California. The California Department of Education has administrative responsibility for the entire state. Every one of the state's 58 counties has a county office of education. And then, within each county, are school districts obligated to serve all the students who live within their boundaries.

A second set of agencies has been overlaid on this structure in order to efficiently provide some select educational services. Special Education Local Plan Areas (SELPAs) and Regional Occupational Centers/Programs (ROCPs) serve specific students, often across the geographic boundaries of school districts.

Charter schools exist within the system, but the students they serve and their "chartering agency" are not determined solely by geography. They operate without set attendance boundaries or a predetermined constituency. Some are affiliated with local districts and some are not.

California Department of Education (CDE)

The CDE has some responsibility for all students within the state boundaries and, to some extent, for the operation of both districts and county offices.

The department has several roles within the school finance system. It administers the numerous categorical programs created by state and federal lawmakers. It also maintains the data related to the funding that districts and county offices receive and the way those funds are spent. Although California's elected superintendent of public instruction oversees the department, the State Board of Education acts as its policymaking body.

Funding for the CDE is not included in the minimum funding guarantee under Proposition 98 and is a separate line item in the state's budget. In 2007–08, CDE funding was $47.1 million (or less than one-tenth of one percent of total K–12 funding).

County Offices of Education (COEs)

Each of California's 58 COEs has jurisdiction over the districts in its county and has significant oversight responsibilities for these districts.

County offices have specific responsibilities regarding, in particular, fiscal oversight. An additional set of responsibilities was added in 2004 as part of the settlement of a lawsuit against

© Copyright 2010 by EdSource, Inc.

the state related to the quality of school facilities, textbooks, and teachers in schools that serve low-income children.

To some degree, county offices also function like school districts. They often operate schools, usually to serve students with special needs. Many of them also provide administrative services, particularly to small school districts in the county. Some COEs are rather entrepreneurial as well, providing services for a fee to school districts and other entities.

School Districts

Each of the state's nearly 1,000 school districts is the fiscal agent responsible for governing K–12 schools within its particular geographic boundary. The bulk of K–12 education funds are allocated to school districts that in turn pay for the cost of operating schools.

About a third of districts serve all students in their boundaries from kindergarten to grade 12. In other areas, students attend grades K–8 in an elementary district and grades 9–12 in a high school district.

Because school districts are responsible for so much of the system—both in terms of funds and the sheer number of students they serve—they are often considered to be at the center of the school finance system.

Allocations To Meet Special Needs

Although the bulk of funding pays for the education of K–12 students within regular classrooms, both the state and federal government set aside funds for two special categories of services: Special Education for students with disabilities and occupational programs that provide training to prepare students directly for the workforce.

For administering funds for Special Education and occupational programs, the state created a separate group of entities: Special Education Local Plan Areas (SELPAs) and Regional Occupational Centers/Programs (ROCPs).

Special Education Local Plan Areas (SELPAs)

Funds for Special Education services are distributed to districts through SELPAs. The SELPA coordinates services for students with disabilities from infancy to age 22. The members of the SELPA agree on how the required services will be provided and how much each district will receive based on the programs it operates and the students it serves.

The SELPA boundary may include several school districts or simply coincide with a particular school district or county office boundary. In rare cases, a particularly large school district may have more than one SELPA.

The state and federal governments provide Special Education funding to districts through the SELPA. But this funding does not cover the full cost of educating students with disabilities. Local school districts are expected to provide a share from their other revenues.

Regional Occupational Centers and Programs (ROCPs)

California has about 70 ROCPs. These centers serve high school students age 16 and older and some adults. Collectively, they offer courses in more than 100 different career areas as diverse as forensic science, engineering, manufacturing, technology, automotive technology, graphic design, digital pre-press, and health care.

The ROCPs operate under one of three organizational structures: the majority are governed by county offices of education; a significant number operate under a joint powers agreement among districts; and a few are run by an individual school district.

Services For Students Outside K–12 Classrooms

California in recent years has increased its investment in after-school programs operated by local school districts. Thanks to a voter-approved initiative (Proposition 49), funds have been permanently earmarked for these programs. Both the state and federal governments support after-school programs.

California school districts and county offices also operate some programs that serve adults and others that provide services for children not yet ready for school. The state counts some of that funding as K–12 funding. Generally, school districts and

© Copyright 2010 by EdSource, Inc.

© Copyright 2010 by EdSource, Inc.

county offices directly receive and administer the funds for any adult education or child care/development programs they operate. Preschool and school-age children receive services through a variety of Child Care and Development and State Preschool programs. Some, but not all, of these programs are run through the public education system.

Similarly, some adult education programs are operated by unified and high school districts. A variety of other agencies, including community college districts, cities, and counties also provide adult education.

Funding for Facilities

For the most part, funding for the construction and repair of school facilities is separate from funding for operations. The bulk of capital costs are paid for through public bonds.

For many years, particularly through the 1990s, public schools in California faced a serious facilities crisis. The number of students was increasing, many schools were overcrowded, and an alarming number of buildings needed renovation and modernization. Californians responded to this need by passing both statewide and local general obligation (G.O.) bonds for facilities.

Major Sources of Facility Funds

School districts rely on state and local G.O. bonds to raise money to build and remodel school buildings and purchase long-term equipment. Some districts also generate funds by levying developer fees and forming facility districts.

General Obligation (G.O.) Bonds

California has a statewide school building program—the School Facilities Grant Program—supported by statewide bond measures. Statewide bond measures require a simple majority (50% plus one) to pass.

Local school districts can also issue school construction bonds and levy property taxes to pay for them, provided they get voter approval. Prior to 2001, districts needed two-thirds approval to pass local G.O. bond measures, and more than 40% of local school bonds failed. But in November 2000 California voters passed Proposition 39, which allows school bonds to be approved with a 55% "supermajority" (with restrictions on the amount of the bond and greater accountability requirements). Since the passage of Proposition 39, districts have had the choice of whether to seek two-thirds or 55% approval. Local elections that rely on 55% approval have been more successful, with more than 80% passing.

Developer Fees

School districts also have the authority to levy developer fees on residential and commercial construction or reconstruction, but statewide these fees generate significantly less money than bonds. The money may be used only for school facilities, including portable classrooms. These fees are charged both to developers of new properties and to property owners who remodel. They are based on the concept that new construction will lead to additional students. Individual school districts decide whether to levy the fees and at what rate up to the allowed maximum. Districts are required to substantiate the financial impact of the new development and show that they have used the revenues to address that impact.

The State Allocation Board adjusts the fees for inflation in even-numbered years. In 2010 and 2011, the maximum was set at 47 cents per square foot on commercial construction and $2.97 per square foot on residential construction.

Facility Districts

School districts are also able to tax just a portion of their districts—often new housing developments—by establishing a Mello-Roos Community Facility District or a School Facility Improvement District (SFID).

Under Mello-Roos, which requires two-thirds voter approval, property owners pay a special tax based on a formula. School districts have been able to establish Mello-Roos districts since 1983.

© Copyright 2011 by EdSource, Inc.

In 1998 school districts were first able to form SFIDs, which generate funds through general obligation bonds based on the value of the property. In response to Proposition 39, legislators passed a law in July 2001 that allowed the voter-approval threshold for SFIDs to be either two-thirds or 55% (with added accountability provisions). Since then, SFIDs have become much more common than Mello-Roos districts and represent almost all facility districts established today.

Maintenance Funding

The ongoing maintenance of facilities comes out of district operating funds in ways that are partially determined by state law. Districts are required, for example, to maintain a Routine Restricted Maintenance Fund that dedicates 3% of their general fund budget to this purpose. In addition, they can receive state funds for deferred maintenance projects as long as they provide matching local funds.

The routine cleaning and upkeep of facilities—custodial work, in other words—cannot be funded from the above sources. Instead, it comes out of regular district operating funds.

Obligations Under the *Williams* Settlement

The *Williams v. California* lawsuit, originally filed in 2000, charged that the state had failed to give thousands of children the basic tools necessary for their education, including "inadequate, unsafe, and unhealthful facilities." The 2004 settlement included accountability measures, extra financial support, and other help for low-performing schools.

The state agreed to provide $800 million for critical repair of facilities in future years for the state's lowest-performing schools. That includes 1,475 schools that were in the bottom three deciles of the state's 2003 Base Academic Performance Index (API) rankings, according to the California Department of Education (CDE). Those schools serve more than one million students.

The settlement also requires all schools—no matter how they rank on the state's Academic Performance Index (API)—to post signs in every classroom that explain the standards for facilities. Any school that receives funding from the state's school building program must also establish a facilities inspection system to ensure that schools are well maintained.

In addition, all schools must report the condition of their facilities in their School Accountability Report Cards (SARCs). Because of *Williams*, all districts must also have a uniform complaint process for complaints regarding unsafe or unhealthy facilities.

For more information, see the *Williams* section of the Califonia Department of Education's website: **www.cde.ca.gov/eo/ce/wc/wmslawsuit.asp**

© Copyright 2011 by EdSource, Inc.

Charter School Funding

Charter schools in California are publicly funded but function somewhat differently from traditional public schools. They operate independently under a performance agreement with a chartering authority, which is typically a school district but can also be a county office of education or the State Board of Education.

Because charter schools do not have to comply with most sections of the state Education Code, they are less regulated and have more independence in making decisions than traditional public schools. Instead they are governed primarily by their charters, which are generally granted for five years and renewed based on the school's performance.

Charter schools are funded on a per-pupil basis and are usually able to hire their own teachers and other staff. However, they are subject to closure if they fail to meet their promises regarding student outcomes or their obligations concerning financial management.

Funding for Charter School Operations

Each year charter schools can choose whether they want to receive their funding through their chartering agency or directly from the state. Either way, these schools receive revenues from both general purpose and categorical sources.

General purpose funds, like the revenue limit monies districts receive, come from local property taxes and the state. The amount of general purpose funding depends on the school's estimated average daily attendance (ADA) and the grade level of the students, with the state providing more as students grow older. The amount is adjusted annually and is based on average district revenue limits.

Charter schools also receive a discretionary block grant that consolidates funding from about 45 categorical programs. In addition, charter schools receive extra funding for each student they serve who is identified as an English learner and/or eligible for free/reduced-priced meals. Schools receive double funding for each pupil who is both an English learner and from a low-income family. This is in lieu of the state Economic Impact Aid that districts receive. Charter schools are able to treat these funds as general purpose monies and can spend them as they wish.

Many of the state's largest categorical programs, such as Class Size Reduction (CSR), are not included in the block grant. But charter schools are free to apply for CSR funding and for other categorical money from the state or the federal government as long as they meet applicable program requirements.

The federal government has also earmarked funds for California charter schools under the Public Charter Schools Grant Program. Charter developers, new charter schools, and those charter schools with a history of success are eligible for grants.

Charter schools, like traditional schools, provide services and receive funding for Special Education students through a Special Education Local Plan Area (SELPA). It is legally presumed that a charter school is an arm of its charter-granting agency and thus a part of its SELPA. So charter schools have to negotiate with their charter-granting agency how costs, revenues, and responsibilities will be allocated.

© Copyright 2007 by EdSource, Inc.

The difference between categorical funding for charter schools and that received by traditional public schools is an ongoing policy issue for California. Charter schools end up getting less of the large categorical programs outside the categorical block grant. To bring about greater parity in the categorical funding for charters and noncharters and to compensate for the fact that some programs have been removed from the categorical block grant, the Legislature passed Assembly Bill (AB) 740 in 2005, which changes both the amount and calculation of the categorical block grant. This will be reviewed every three years.

Funding for Facilities

Locating and paying for facilities has proved challenging for many charter schools—especially start-ups. As a result, state and federal lawmakers have taken steps to ease the problem:

- As of November 2003, school districts must make adequate facilities available to charter schools of a certain size that are operating in the district.
- A portion of statewide school bonds are typically set aside for new construction of charter school facilities. To qualify for funding, a charter school must prove that it is financially sound.
- The Charter School Revolving Loan Fund allows a $250,000 maximum loan amount over the lifetime of a charter school, with repayment periods of up to five years. The charter schools are solely liable for these loans, and priority for loan applications goes to new charter schools.
- The Charter School Facility Grant Program (Senate Bill 740), passed in 2001, helps charter schools with rent or lease expenses. To be eligible, a charter school must have at least 70% of its pupils eligible for free/reduced-priced meals or be located in an attendance area with the same kind of student population.
- The federal Credit Enhancement for Charter Schools Facilities program provides competitive grants to organizations that are willing to guarantee loans and leases that charter schools pursue.

© Copyright 2007 by EdSource, Inc.

Selected Readings on California School Finance

Chapter 3
The Current Budget

School Finance Update Available Online

EdSource's *Challenging Times* follows. It examines the financial circumstances of California's school districts and the recent state and federal policy decisions that are affecting them. But EdSource is also publishing an online update of the state budget and its impact on schools, available by mid-January 2011. To download a free copy, go to:
www.edsource.org/pub11-school-finance-key-decisions.html

EdSource® Clarifying Complex Education Issues®

REPORT

DECEMBER 2010

Challenging Times: California Schools Cope with Adversity and the Imperative To Do More

HIGHLIGHTS

- California's school districts face competing priorities 2
- The state has delayed large payments to local school agencies..... 4
- Districts have limited options for coping with reduced funds..... 5
- Districts are making cutbacks but having mixed success in keeping them "away from the classroom"..... 6
- Federal stimulus dollars have helped, but many districts still face severe funding difficulties 10
- Obama administration programs represent seed money for reforms it hopes will be game-changing..... 12
- Policymakers' actions will add to districts' workload..... 16
- "Doing more with less" is a daunting challenge for California schools..... 21

EdSource thanks Joyce and Larry Stupski for supporting the development and dissemination of this report.

California school districts face critical and competing pressures. Asked on a recent survey to identify their most important strategic objectives, district officials' two most common responses were "improving academic achievement" and "remaining fiscally solvent."

Some districts have taken drastic actions in the past two years to make ends meet, often at the expense of educational programs. A record number of districts report that they may be unable to meet their financial obligations. And it appears that further funding cuts are on the horizon. Meanwhile, the pressure to successfully prepare all students for college and career has never been greater.

Reports from throughout the United States make it clear that California's school districts are not alone. U.S. Secretary of Education Arne Duncan recently cautioned schools that tough economic times are likely to continue and that "doing more with less" is the "new normal." Duncan went further in a Nov. 17 speech at the American Enterprise Institute, a conservative think tank. "I believe enormous opportunities for improving the productivity of our education system lie ahead if we are smart, innovative, and courageous in rethinking the status quo."

Does this expectation realistically apply to California? Or are our public schools already so leanly run and so tightly strapped that further cuts are impossible without hurting the quality of schooling for California's children? And to what extent are the new initiatives and policies created by the federal and state governments—as part of their rethinking of the status quo—likely to help California's schools "do more" in terms of student achievement "with less" in terms of resources?

This report examines the financial circumstances of California's school districts and the actions they have been taking to cope with these competing demands. It looks at the various forces that govern both the revenues they receive and the expenditures they make, and the added pressures they face due to the insolvency of California's state budget and the fact that the 2010–11 budget was the latest in the state's history.

As a result of that late budget, EdSource's usual summary of the current year budget for K–12 education is not included in this report. Watch for an EdSource Budget Brief in January that describes those decisions in detail.

EdSource® is a not-for-profit 501(c)(3) organization established in California in 1977.

Independent and impartial, EdSource strives to advance the common good by developing and widely distributing trustworthy, useful information that clarifies complex K–14 education issues and promotes thoughtful decisions about California's public education system.

California's school districts face competing priorities

In fall 2009, the nonpartisan Legislative Analyst's Office (LAO), which provides budgetary and policy advice to the Legislature, surveyed school district and county office of education superintendents regarding their spending and fiscal planning. Of the 1,043 local agencies that received the survey, 231 responded, representing 37% of the state's students.[1]

The questionnaire asked districts whether they had a strategic plan in place for the 2009–10 school year, and if so, what the three most important objectives of the plan were. Of the 205 districts that listed their objectives, the five most common responses were:

1. Improve academic achievement;
2. Remain fiscally solvent;
3. Close the achievement gap/help struggling students;
4. Improve English learners' performance;
5. Modernize facilities.

That list of priorities makes it clear that local school agencies face the challenge of striking a balance between helping their students learn and meeting their financial obligations.

Total revenues for local schools have decreased in recent years

California's K–12 school agencies—districts, county offices of education, and charter schools—receive about $60 billion per year. Those funds come from several sources. The two biggest sources—the state General Fund and local property taxes—have provided less funding in recent years. Not only are revenues to local school agencies down, but large portions of funding are also being delayed.

Education funding comes from several sources

The money for running schools and district offices, which includes everything from textbooks and teachers' salaries to cleaning supplies and utility bills, comes from multiple sources. The state's general fund, local property taxes, and the federal government are the major ones, providing about 90% of the dollars that local school agencies receive. The state controls the allocation of more than three-quarters of total funds.

figure 1 **The five major sources of revenues for K–12 education in California include state, federal, and local funds**

Average Contribution During the Past 10 Years, by Funding Source
The portion of funding that each source has supplied varied from 2000–01 through 2009–10, so the highlighted percentages represent the average contribution during those 10 years.

55%	**State general fund,** which is comprised of personal income, sales, corporate, and capital gains taxes. This source has provided between 50% and 60% of K–12 education's funds during the past 10 years. Several factors have contributed to the variation, including policymakers' shifting of property taxes between school districts and other local governments; temporary increases in federal funding; and a drop-off in state revenues in the past three years due to the economic downturn. Since 2008–09, the percentage has been relatively low.
22%	**Property taxes,** which are collected by counties. The state determines how to allocate them among school districts and other local governments. When California voters passed Proposition 13 in 1978, they established in the state constitution a cap on the level and annual increase in property taxes. During the past 10 years, the percentage of education funding coming from property taxes has ranged from 19% to 26%. In the past two years, the contribution has been about average.
13%	**Federal government,** which generally provides only categorical funding (money earmarked for specific purposes, such as compensatory education for low-income students). However, the recent federal stimulus package provided a large but temporary infusion of mostly discretionary funds for local school agencies. The stimulus funds, available from 2008–09 through Sept. 30, 2011, increased considerably the share of funding provided by Washington, D.C. Prior to 2008–09, the federal portion comprised about 12%, but it rose to 18% in 2008–09 and 16% the following year.
8%	**Local miscellaneous sources,** such as donations to local schools, interest income, parcel taxes, and lease and rental income. School districts and their communities largely control these revenue sources. The amounts vary dramatically from one district to another. Statewide, the portion of funding that local miscellaneous sources have contributed has been relatively constant; but in the past two years, there has been a slight uptick.
1.6%	**State lottery.** Until April 2010, a minimum of 34% of lottery ticket revenues had to be distributed to public schools, colleges, and universities for the instruction of students. However, the recently enacted Assembly Bill 142 requires the California Lottery Commission to increase the percentage of revenues returned to the public from 84% to 87% and redesign its distribution formulas to maximize the total net revenues for public education. Lottery administrators predict the contribution to the education sector will rise by 7% between 2009–10 and 2010–11 as a result.[2]

Data: California Department of Education (CDE) EdSource 12/10

© Copyright 2010 by EdSource, Inc.

School districts receive funding in two forms

Funding comes to districts either as unrestricted or restricted. Unrestricted revenues, which represent about 70% of the average district's funding, can be spent on whatever the district thinks is appropriate. These monies are often referred to as general purpose funds. In contrast, restricted revenues are dedicated to a specific category of activities or type of students (e.g., English learners). Many of these latter funding sources are thus called "categorical" programs.

"Revenue limit" funding provides most unrestricted revenues

The core of unrestricted money is "revenue limit" funding. This term came into being in 1972, when state policymakers put a ceiling on districts' general purpose revenues. Lawmakers acted because they anticipated that the California Supreme Court would overturn the property tax-driven system that had produced great variation in per-pupil funding, reflecting variations in tax rates, property wealth levels, and student populations.

The total revenue limit allocation a school district receives each year is based on a specific amount per pupil. The amount is calculated using historical funding levels and a formula set by law. Within each district type—elementary, unified, or high school—the amount per pupil is intended to be relatively equal, though variation exists. A district's total revenue limit allocation is the product of its per-pupil amount multiplied by its average daily attendance (ADA). Revenue limit funding is a combination of state general fund money and local property taxes.

In some districts, the property wealth—whether due to general affluence or an abundance of natural resources relative to the size of its student population—generates enough property tax revenue to exceed the district's revenue limit. These school districts are called excess tax or basic aid districts. The latter term arises from the fact that they get only the basic aid of $120 per pupil—or a minimum of $2,400 per district—required by the state constitution and no funding in addition to their local property taxes to meet the revenue limit. They keep any property taxes in excess of their revenue limit, which in some cases represents thousands of dollars per pupil. Because of budget constraints in 2002-03, lawmakers eliminated the distinct payment of $120 per pupil, saying that the state met its obligation with other state funding from categorical programs. In typical years, there are roughly 60 to 80 basic aid districts, but the number has recently climbed higher than 100 because revenue limits have fallen faster than property tax revenue in some areas.

Categorical programs provide most of the restricted funds

Restricted funding comes mainly through categorical programs. Some of the better-known programs are Special Education and K-3 Class Size Reduction. However, a number of other categorical programs exist. They are dedicated to specific purposes such as child nutrition, after-school programs, and charter school facilities. A significant portion of state general fund allocations are categorical. Traditionally, almost all federal education funds are earmarked for specific purposes as well.

In general, local school agencies must apply for categorical funding or get reimbursed for performing particular services, such as running an after-school program. The amount of categorical revenue that agencies receive is often based on student counts—either the number attending school or, more often, the number with certain demographic characteristics (e.g., low-income) or participating in a given special purpose program.

Although not considered categorical funding, lottery revenues are restricted in that they must be spent for instructional purposes, with a portion dedicated specifically to instructional materials.

State and local tax revenues have declined

The national recession that began in December 2007 hit California particularly hard. The state's unemployment rate is still substantially above the national average, and other economic indicators are showing only slow improvement. In California, the public sector has been affected disproportionately because of the state's tax structure, which causes government revenue to underperform the economy when it is weak. State general fund revenues decreased 14% between 2007–08 and 2009–10.

Property tax revenues have also fallen. The total assessed value of California properties decreased from $4.56 trillion in 2008–09 to $4.45 trillion in 2009–10, and then to $4.37 trillion in 2010–11. These were the first statewide decreases in assessed value since the Board of Equalization (BOE) began keeping records in 1933. Because property taxes are based on property values, revenues from the tax declined similarly during those two years, but exact figures are not yet available from the BOE. Fortunately for schools, the state's education finance system requires the general fund to backfill any decrease in their property tax revenues. However, that backfilling adds to the strain on the state general fund.

Heavily dependent on the state for their revenues, school districts have had to reduce their spending accordingly. Expenditure data collected by the California Department of Education—which will be reported to the National Center for Education Statistics (NCES)—show that spending by the state's local education agencies averaged $9,706 per pupil in 2007–08 and $9,503 in 2008–09—a $203 or 2.1% drop. Because of NCES reporting rules, those amounts exclude spending on adult education, capital outlay (constructing or modernizing facilities), and debt service. School district expenditures for 2008–09 likely reflect their efforts to mitigate cuts where they could by using some reserve funds as well as the one-time federal stimulus monies.

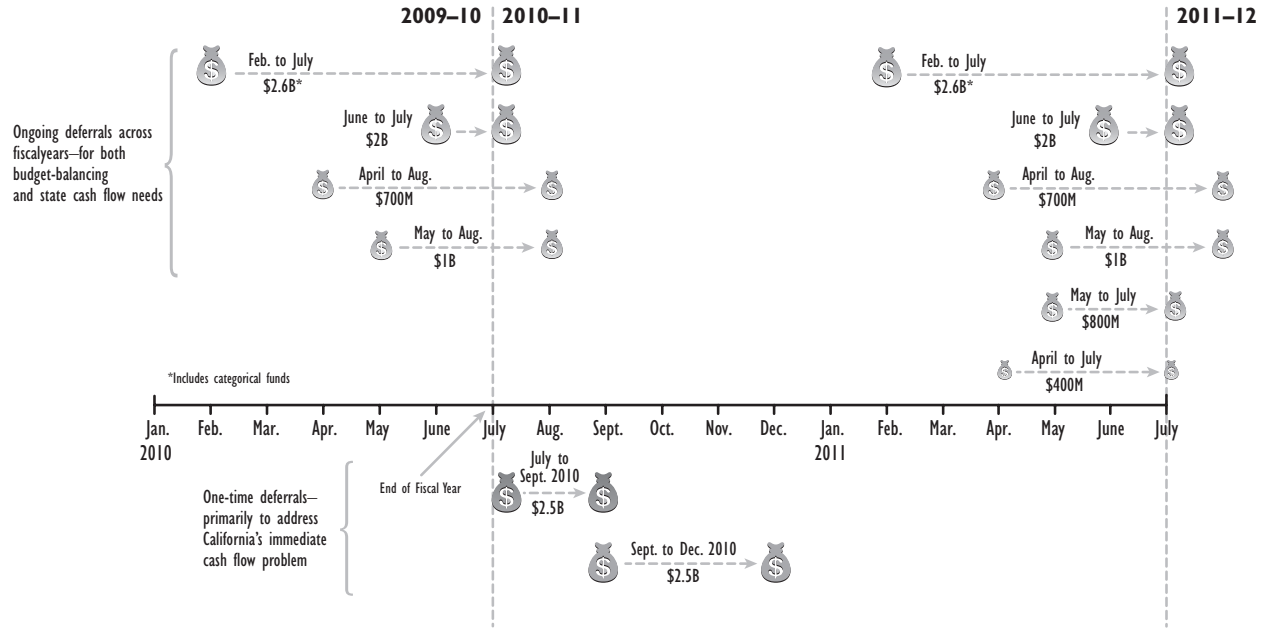
Although equivalent expenditure data is not yet available for 2009–10, it will likely show a similar or larger drop, based on a reduction in the total revenues allocated to schools that year. Total revenues were $62.9 billion in 2007–08 and $60 billion in 2009–10, a decrease of $2.9 billion or 4.5% in two years.

Funding delays have also created difficulties for local school agencies

In addition to outright cuts, local school agencies have to worry about cash flow much more than in the past. School districts

© Copyright 2010 by EdSource, Inc.

figure 2 | **The state has delayed large payments to local school agencies**



Data: School Services of California, Inc. EdSource 12/10

have always had to provide consistent services and meet regular payroll obligations despite receiving their state and local revenues in unequal installments throughout the year. However, the current combination of reductions and state-caused delays in those revenues has made cash management a central concern for school districts.

In recent years, the state has had its own persistent cash flow problems because the timing for when it receives revenues and makes expenditures does not always align, and reserves have not been sufficient to cover the shortfall. One of the ways California has dealt with these problems is to push back the timing of some of its spending, including its allocations to K–12 school districts. Such deferrals—whether within a fiscal year or across fiscal years—can help the state's cash flow, but they disrupt the timing of school districts' revenues. As a result, districts have to adjust, sometimes by borrowing funds that must be repaid with interest.

A large portion of K–12 funds are arriving late

Statewide, the deferrals represent about $7 billion out of total Proposition 98 funding of about $50 billion.[3] Some deferrals began several years ago, and others began just last year. The funding delays have ranged in length from two to five months. Some have been repeated so many times that they are now regarded as permanent by the education community, while other deferrals have occurred only once.

For 2010–11, policymakers authorized even more funding delays. Two have already occurred—one in July 2010 and one in October. Each amounted to $2.5 billion. A planned third deferral will move a total of $1.2 billion in payments from April and May 2011 to July 2011. One effect of these deferrals is that "apportionment" payments, which include revenue limit dollars plus some add-ons, will be spread over 14 months rather than the standard 12-month fiscal year. Figure 2 above depicts the amount, duration, and ongoing/one-time nature of authorized deferrals.

Fiscal tools help districts manage funding delays

School districts have some options for mitigating the cash-flow challenges the state deferrals create.

One way local education agencies react to temporary funding shortfalls is to use "internal borrowing." This involves temporarily moving funds from one district account to another that has more pressing payment obligations. For example, a district might transfer funds from a designated reserve to the General Fund in order to make payroll.

State law requires that the original accounts be repaid within the same year or in the following year if the borrowing occurs within 120 days of the end of the fiscal year. In addition, local agencies cannot transfer more than 75% of any one account, and the borrowing account must earn enough income during the current fiscal year to repay the amount transferred.

Another option for districts is "external borrowing" from an outside source, such as their local county office of education. Such loans provide discretionary money for the district.

Districts can also issue tax and revenue anticipation notes (TRANs). This is a form of short-term borrowing from the private market. These notes are generally available within, and not across, fiscal years.

Yet another source of external borrowing is the county treasury. State law puts certain restrictions on these loans, however. For example, the amount lent must not exceed 85% of taxes levied on behalf of the school district. Loans also must be made before early April, and the county treasury gets first call on the district's subsequent revenues until the loan is repaid.

These tools help districts manage changes in the timing of their revenues, but districts must employ a variety of other tactics to deal with changes in the amount of their revenues.

© Copyright 2010 by EdSource, Inc.

Districts have limited options for coping with reduced funds

In his November speech, Secretary Duncan acknowledged that schools throughout the country face challenges in responding to the recent funding downturns, but he did not recommend a specific course of action. However, he urged local and state decision makers to avoid cuts that would damage school quality and harm students, and instead look for ways to reduce spending without hurting instruction.

The wrong way to increase productivity, Duncan stated, was to do things such as reducing the number of days in the school year, eliminating classes in the arts and foreign languages, and laying off talented young teachers. Duncan's preferred approach includes deferring facilities maintenance and construction, cutting bus routes, lowering the cost of textbooks and health care (perhaps meaning offering less generous insurance benefits), improving energy efficiency of school buildings, reducing central office personnel, and closing underenrolled schools.

Duncan was speaking to a national audience. He was not specifically addressing California, which has for years ranked near the bottom among states in per-pupil spending when regional variation in the cost of employee salaries is accounted for, and whose economy has been especially hurt by the recent recession. In California, many school districts have already implemented the cost-cutting strategies Duncan cited as less harmful to instruction. Thus, the options remaining in most districts here are likely to be limited, particularly given that the bulk of education expenditures are devoted to personnel. California as a whole already has larger schools, larger class sizes, and fewer support and administrative staff than almost any other state.

California's nearly 1,000 school districts must find a mix of strategies that address their particular circumstances, but some common themes run through their decisions. In addition, the state's temporary granting of flexibility on some spending requirements has helped districts manage their budgets, but that flexibility will expire soon. Further, unlike local agencies in most other states, California's school districts are severely limited in their ability to increase revenues.

Local school agencies spend the bulk of their funds on salaries and benefits

Excluding capital outlay, about 85% of districts' spending in California goes toward employee salaries and benefits.[4] The remainder of day-to-day spending goes toward such things as utility bills, student transportation, and books and supplies. Local school agencies report their expenditures to the California Department of Education (CDE), and that information is reflected on the Education Data Partnership website, www.ed-data.org. According to Ed-Data, in 2008–09, the most recent year for which spending information is available, on average school districts spent their general fund monies as follows:

50%–Certificated personnel salaries. This includes teachers, librarians, counselors, administrators, and others who must have a credential for their position.

20%–Employee benefits. This category includes health and welfare benefits as well as workers' compensation, retirement contributions, and other benefits—for both certificated and classified personnel.

16%–Classified personnel salaries. This includes instructional assistants, athletics staff, office support staff, and others not required to hold a credential for their job.

10%–Services and other operating expenses. This category covers a wide range of items and activities including professional/consulting services, subcontracts for student transportation, leases and repairs, utility bills, and travel and conferences.

4.5%–Books and supplies. This is also a broad category. The bulk of the spending here goes toward consumable materials such as copier paper and supplies for food service, janitorial work, and buildings and grounds maintenance. Substantial amounts are also spent on textbooks, library books, and reference materials for students and central office personnel (e.g., dictionaries for students and accounting manuals for school business officials). Finally, it includes "noncapitalized equipment"—items that are relatively permanent but not expensive enough to qualify as capital outlay. Photocopiers and lawn mowers would qualify as noncapitalized equipment.

Multiple factors push schools to routinely spend more each year

Districts face a number of pressures to spend more on their employees and students despite revenue delays and declines. First, employees of school agencies expect—and most collective bargaining agreements require—salary raises based on staff experience and continuing education. The rate at which a particular school district's salary expenses increases depends partly on staff turnover. In these lean times, it is common for districts to lay off the most recently hired and lowest-paid teachers, which can result in an increase in average teacher salaries. On the other hand, if veteran teachers retire and the district replaces them with less experienced ones who are paid less, total salary costs can go down.

Second, school agencies face rising health insurance costs for their employees and retirees. According to the Education Data Partnership website, from 2005–06 to 2008–09 overall spending by California school districts rose by 15%, but spending on health and welfare benefits increased by 24%. This

© Copyright 2010 by EdSource, Inc.

increase reflects a trend across the entire economy that has continued even during the recent recession. Employer health care costs rose by 7.9% per capita in 2009, while the Consumer Price Index declined by 0.4%, according to Thomson Reuters, which reports on trends in business, science, health care, and other industries.

At the same time, schools face ever-increasing pressure to improve academic achievement, thanks in part to escalating goals under the federal No Child Left Behind Act (NCLB). Beyond that, public opinion and policymaker concerns are increasingly focused on the need to better prepare all students—regardless of their family backgrounds—to graduate from high school prepared to succeed in college or career.

Traditional strategies for improving student achievement—such as smaller class sizes, adding instructional coaches and other resources to improve teacher effectiveness, and providing extra time and interventions for struggling students—are often labor intensive and thus relatively expensive. But local educators are being charged with this task at the same time that their resources are being cut. In short, they are being called on to do more with less. Some schools are trying to meet this challenge with new approaches. For example, a small but growing charter management organization is using data and technology to individualize instruction and improve students' learning in a cost-effective manner.

Districts are making cutbacks but having mixed success at keeping them "away from the classroom"

Despite the factors pushing districts to spend more, school agencies have scaled back in spending, services, and personnel. On Ed-Data, patterns in districts' specific spending reductions emerge.

Spending on books and supplies has decreased

For example, Ed-Data shows that districts decreased their outlay on books and supplies from an average of $511 per pupil to $401 between 2007–08 and 2008–09. Districts cut back the most, in absolute dollar terms, on consumable materials and supplies used in the classroom and on the physical plant.[5] Spending was also substantially reduced on noncapitalized equipment. Textbooks and school library books were cut as well, though spending on textbooks normally ebbs and flows in relation to adoptions of instructional materials. However, while districts were decreasing their spending, the State Board of Education adopted materials for math in 2007 and for reading language arts in 2008.[6]

A CDE survey reveals that local school agencies have cut spending in many areas

In April 2010, the California Department of Education surveyed districts about their more recent cutbacks. In total, 287 local educational agencies, representing 26% of the state's students, responded to the CDE survey. It is unclear how well the respondents represent the state as a whole in terms of student demographics or financial decisions; but the data point to clear examples of reductions, some of which have an obvious negative impact on instruction while others are less direct. The findings from the survey include the 2009–10 school year and so would not be fully reflected in the state spending averages. Further, every district makes slightly different choices based on local needs and preferences.

Releasing the results in June, the CDE listed 35 areas in which school districts reported making some type of reduction. The top 10 categories, and the percentage of respondents who indicated they have cut in each area, are listed below:

- Building and Grounds: 65% of respondents
- District Administration: 58%
- Instructional Materials: 58%
- Counselors, Nurses, Psychologists: 48%
- Art, Music, and Drama: 48%
- Classified Staff Compensation Reductions: 47%
- Certificated Staff Compensation Reductions: 45%
- K–3 Class Size Reduction: 35%
- Electives: 34%
- Library: 34%

An examination of the list reveals some areas in which few districts have made cuts, but it is unclear whether that is because funding for those purposes is restricted, districts deem the activity too important to reduce, or there is little left to cut. Examples include services for English learners/multilingual services, school security, and driver education. In addition, California as a whole already has the worst or nearly the worst ratios of counselors, librarians, and district administrators to students in the country.

School agencies are taking advantage of temporary fiscal flexibility

In 2008–09 and 2009–10, state leaders provided districts flexibility with some program and budgetary requirements to help them contend with funding cuts. First and foremost, lawmakers granted districts complete flexibility in how they spend about $4.5 billion from about 40 categorical programs—after reducing the programs by nearly 20%. The cuts and flexibility are officially in effect through 2012–13. (Policymakers also cut the funding but maintained the requirements of another 11 programs and protected the funding and requirements of about 10 programs. Funding for these programs totaled about $10 billion.)

In addition, the state loosened the penalties for exceeding the student/teacher ratio called for in the K–3 Class Size Reduction program. That change lasts only through 2011–12. Districts were also able to reduce their reserve for economic uncertainties in 2009–10 and 2010–11 to one-third of the percentage normally required.

Flexibility was granted in other forms as well. Through 2012–13, districts can:

- Shorten their school year from 180 to 175 days without penalty in order to reduce their labor and physical plant costs.
- Reduce spending on routine and deferred maintenance of facilities.
- Use the proceeds from sales of surplus property on one-time purchases for general purposes. (Normally they can only be used for facilities.)
- Forego buying the most recent instructional materials. Districts must still provide standards-aligned materials

© Copyright 2010 by EdSource, Inc.

for their students, but the materials may be from a prior adoption by the State Board of Education, or in the case of high schools, the local district.[7]

Districts capitalized on categorical program flexibility

The LAO, which has advocated for categorical flexibility for several years now, asked districts how they were using the newfound flexibility in the survey described previously. The LAO's data indicate that the increased flexibility is helping districts manage their budgets. Two-thirds of responding districts reported that the change has made developing and agreeing on a strategic budget plan easier, and three-quarters stated that it also made it easier to implement strategic plans.

Few districts last year exercised the option to shorten the school year, but most took advantage of categorical flexibility, moving funds away from the newly flexible categorical programs and into core K–12 instruction. In particular, districts tended to shift funds away from programs such as adult education, deferred maintenance, professional development, art and music, gifted education, supplemental instruction, and counseling. In contrast, about half of responding districts reported making no changes and shifting no funds away from Community Day Schools (district-run programs for students who have been expelled), a program for teenage mothers, and an alternative pathway program for teachers.

In the current year, it is reasonable to expect that districts will sustain these changes and perhaps expand them. Less clear is what will happen if the spending requirements accompanying the funding go back into effect in two years, as the law now requires. Some school business officials are deeply concerned about losing the flexibility, seeing it as crucial to fiscal management in a time of funding cuts and delays. In contrast, critics of categorical flexibility express concern over districts' shifting funds from some programs meant to help disadvantaged students and their families.

Relaxed penalties in the K-3 Class Size Reduction program have led to larger class sizes in early grades

Policymakers have substantially relaxed the penalties for exceeding the 20-to-1 student-teacher ratio originally called for in the K–3 Class Size Reduction (CSR) program. This has allowed districts to raise K–3 class sizes above 20-to-1, though more funding is deducted as classes get larger. Classes with more than 25 students generate 70% of the funding they would have yielded with class sizes of 20.

A hypothetical example illustrates how this policy works. If a school had three classes of 20, it would get the CSR per-pupil funding rate for 60 pupils. If the school then lost one of those three teachers and distributed her students among the two remaining teachers, leaving two classes of 30 pupils, the school would receive 70% of the CSR funding for 40 pupils.

That would represent a substantial loss of CSR incentive funding, but the school would not be implementing CSR as intended or incurring the cost for that third teacher. The funding could be used for a variety of purposes, including perhaps hiring an instructional aide to help the two teachers.

In addition, as of Jan. 31, 2009, policymakers placed a cap on the number of classes in a district that can qualify for CSR funding. Further, state funding may not cover the entire cost of implementing the program if the teachers involved command a relatively high salary due to their education level and experience. Thus, the incentive to maintain K–3 student-teacher ratios at or below 20-to-1 has been dampened considerably.

These factors have led to a substantial reduction in CSR participation. A September 2010 survey of the state's 30 largest school districts by California Watch, an investigative journalism organization, showed that all will have classes with more than 20 students in some or all of grades K–3 this year. Some of those 30 districts will keep classes relatively small, with average class sizes in the low 20s. However, half of the districts surveyed will enroll at least 28 students in some or all of their K–3 classes, and nine districts will have at least 30 students.

As a result of lower participation in the program, some of the funding the state set aside for full implementation has not been claimed. The state reclaimed those dollars—amounting to several hundred million—during the past two years to help address the budget deficit.

As noted above, current law will remove the increased flexibility after 2011–12. Absent legislative action, school districts will have to choose between reinstating the relatively costly program by increasing their K–3 staffing or foregoing the funding they are now receiving—$1,067 per pupil for a full day or $533 per pupil for a half day.

Districts are trying to increase their revenues

California's school districts' options for increasing their revenues are more limited than in most other states. With no direct taxing authority, they have to get community support for private donations, parcel taxes, or the seldom-used sales tax add-on. In some communities, these revenues comprise substantial per-pupil amounts. Statewide, they make up a small but growing portion of funding. Ed-Data reports that local miscellaneous revenues rose from $147 per pupil in 2006–07 to $187 in 2008–09. Many districts are trying to generate more funds in a variety of ways.

Charging fees for certain activities and materials is under legal challenge

One way that districts make ends meet is by charging students fees for some activities or materials. Families in California have grown accustomed to paying fees to support school-related activities such as home-to-school transportation. However, it appears that several schools throughout the state have begun charging fees for course-related expenses, a practice that has come under legal challenge.

In September 2010, the American Civil Liberties Union of Southern California (ACLU) filed a class action lawsuit in Los Angeles Superior Court to force the state to stop school districts from charging families for instruction-related expenses. The suit grew out of complaints from parents and other instances of schools' charging fees that the ACLU discovered by reviewing the websites of a sample of public high schools. For example, the ACLU says it found that schools were requiring students to purchase mandatory academic textbooks and workbooks, buy school-issued P.E. uniforms, and pay lab fees for science classes and material fees for fine arts courses.

© Copyright 2010 by EdSource, Inc.

Voters continue to support school facilities bonds when given the chance

Communities throughout California have been relatively successful in raising funds for school facilities through the passage of their own general obligation bonds, but often they depend on state matching funds to help finance their capital projects. Those state funds are expected to run out by the end of 2010, and policymakers did not place a new statewide bond on the November 2010 ballot. That means districts may have to raise the full amount needed for projects on their own or wait until voters approve a replenishment of state funds before proceeding with projects.

No statewide ballot measure for education facilities in 2010

In spring 2010, state legislators considered, but ultimately did not pass, a bill that would have put on the November 2010 ballot a $6.1 billion bond measure for constructing and modernizing K–12 and higher education facilities. Three-quarters of the funds would have gone to K–12 schools, including $50 million for preschool facilities to be located on elementary and secondary school sites. The California Community Colleges would have received $800 million, and the University of California and California State University would have received $350 million each.

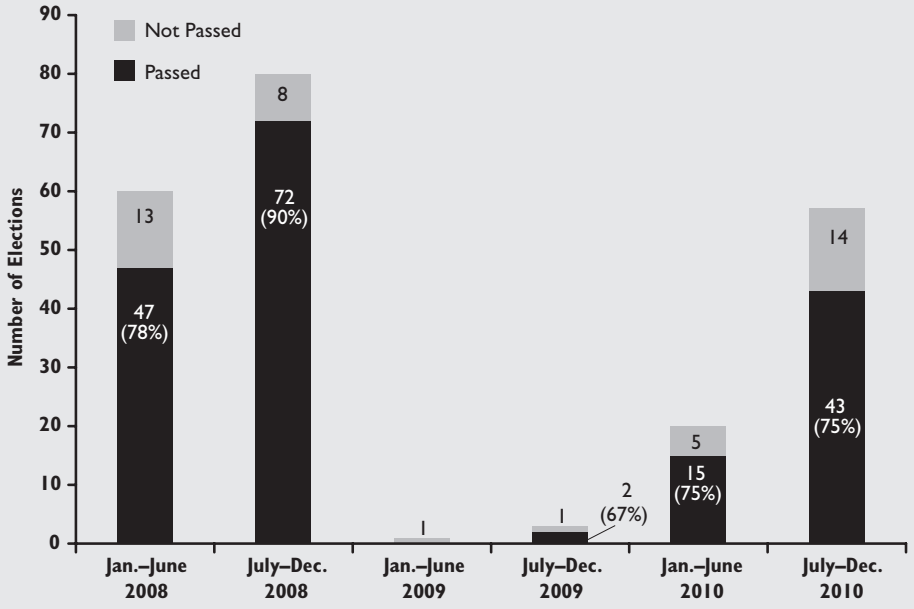
According to School Services of California, a technical assistance and lobbying firm in Sacramento, the lack of a statewide bond measure is a disappointment to the education community because state bond funds available to K–12 schools are expected to be depleted by the end of 2010. In addition, all of the higher education facilities bond monies from the last statewide bond (Proposition 1D in 2006) have already been apportioned. Further, construction firms have been offering more affordable bids on jobs during the recent economic slowdown, so having bond funds available would have allowed education agencies to get more for their dollar.

Several concerns on the part of legislators stood in the way of passage. Many argued against adding to the state's debt service obligations in a time of severe deficits. In addition, funding needed to run a bond campaign—as much as $9 million—was in doubt. Further, early polling revealed that a majority of respondents would support a bond, but the majority was not large enough to give bond proponents confidence that a measure would ultimately pass in November.

The earliest that the next kindergarten–university facilities bond measure can now be expected is in 2012.

Approval of local school-facilities bond measures has been relatively high during the recent economic downturn

General Obligation Bond Measure Passage Rate: Jan. 2008–Dec. 2010



Local communities have increased the passage rate of local school facilities bond measures in recent years

Districts can issue general obligation bonds to build or renovate facilities with the approval of two-thirds of local voters or just 55% if they meet specific conditions related to the election and public oversight. They levy a tax based on property values to pay back those bonds. Districts gained the ability to pass bond measures with 55% voter approval in 2001. Since then, 79% of the 698 G.O. bond elections attempted have passed.

Local communities have in recent years been even more likely to approve G.O. bonds. From January 2008 through December 2010, local voters approved 81% of the 221 G.O. bond measures attempted, despite only a 75% passage rate in the November 2010 election.

Data: EdSource, School Services of California, Inc., and League of Women Voters of California-Smart Voter

EdSource 12/10

Plaintiffs argue that such fees violate the state constitution's guarantee of a free education, and the suit names the state and Gov. Arnold Schwarzenegger as defendants. The ACLU bases its case in part on a state Supreme Court ruling in a 1984 case, *Hartzell v. Connell.* As the ACLU argues, in *Hartzell* the court said that all activities that are "'educational' in character" must be free, whether curricular or extracurricular and whether they are worth credit or not. In addition, the ACLU relies on the court's ruling that even fees that could be offset with a waiver for those unable to afford them are not constitutional. The ruling explicitly confirmed several prior California Legislative Counsel and Department of Education interpretations of California Administrative Code provisions

© Copyright 2010 by EdSource, Inc.

prohibiting fees for extracurricular athletics, uniforms, band instruments, and club dues.[8]

School agencies are trying to increase attendance rates

Because a major portion of districts' funding is tied to the number of students attending school each day, some districts are trying to boost attendance rates to generate more revenue. To do this, districts are hiring consultants, analyzing data, engaging parents, and creating extra incentives for students to attend school. One consulting firm reported helping districts increase attendance rates by 0.25% to 1%. That may appear to be a small amount, but at the low end of that range, a district with 10,000 students would generate enough additional revenue to prevent the layoff of a vice principal or two new teachers for a year.

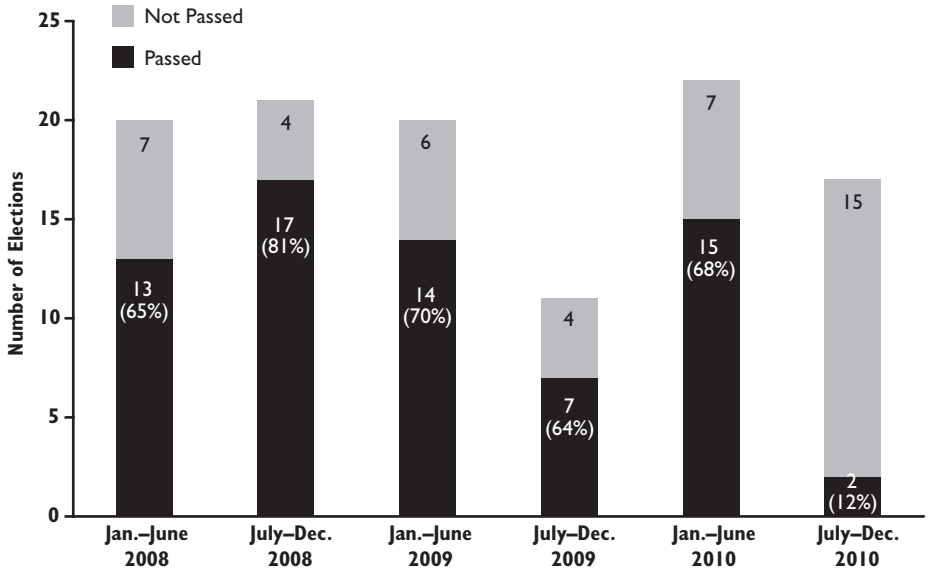
Districts can use revenues from parcel tax elections for operating expenses

Communities can raise funds for schools by approving with a two-thirds vote a tax on parcels of land. Most parcel taxes assess a flat fee on each parcel of property, no matter what its size or value. These taxes generally remain in effect for three to 10 years, but the timeframe can be longer, even permanent.

School districts occasionally use parcel tax proceeds for facilities, but in the vast majority of cases, the money is used for operating expenses. Districts must declare the specific purposes of the parcel tax proceeds before the election. In recent years, the stated purposes have explicitly included reducing the impact of state budget cuts. Examples of other uses include keeping class sizes relatively small, providing a range of science classes, bolstering library collections, modernizing technology, and maintaining music and art classes. Each district that passes a parcel tax generally garners a few hundred dollars per pupil annually.

Of the 542 parcel tax elections held from 1983 through November 2010, 289 (53%) passed. However, in recent years, the passage rate has generally been higher than that. Since January 2008, communities approved 68 of 111 parcel tax measures, a 61% passage rate. Figure 3 shows parcel tax election results during the past three years, broken down into six-month periods. Of note is the relatively high approval rate in July–December 2008. All of the elections in that six-month span occurred in November 2008, just a few weeks after many voters had seen their retirement plans nosedive in value. In other words, many residents agreed to raise their own taxes in support of local schools despite a recent blow to their personal savings.

figure 3 **Local communities were relatively likely to pass parcel taxes in the past three years—until November 2010**



Data: School Services of California, Inc.; and League of Women Voters of California-Smart Voter EdSource 12/10

Also of note, however, is the dramatically low passage rate in the most recent election. A generally anti-tax electorate in November 2010 approved only two of 17 parcel tax measures for K–12 schools.

The 68 parcel tax measures that passed during the past three years affect a fairly small proportion of the state's students, as measured by average daily attendance (ADA). For example, the districts that passed parcel tax measures in 2008–09—a relative high point in terms of parcel tax measures attempted and approved—represented about 228,000 students or 5% of the statewide ADA. For the three-year period, districts that passed parcel taxes were smaller on average than ones where measures failed, with an average ADA of 8,168 students in the successful districts versus an average of 27,754 students in the unsuccessful districts. Those that passed parcel taxes were roughly proportionate to the state distribution of elementary, high school, and unified districts, but they were located predominantly in the San Francisco Bay Area. In November 2010, the only two successful parcel tax elections occurred in Alameda County, which is in the Bay Area. However, eight other parcel tax elections in the Bay Area failed.

Some would like to see a 55% voter threshold option added for parcel taxes, similar to an option created for general obligation bond measures for school facilities. Despite multiple attempts in the Legislature and a 2010 signature gathering effort for a ballot initiative, this policy change has not been put to a vote on the statewide ballot. Thus, passing a parcel tax still requires a two-thirds vote.

Among the parcel tax elections conducted from January 2008 through December 2010, 86% achieved a 55%+ majority (as opposed to 61% that achieved the current two-thirds vote requirement). If the threshold were lowered to 55% as a matter of general policy, more districts would likely try to pass parcel taxes, as happened with school facilities bond measures when a 55% approval option was provided beginning in 2001. (See the box on page 8.)

© Copyright 2010 by EdSource, Inc.

Federal stimulus funds have helped, but many districts still face severe funding difficulties

The recently granted fiscal and programmatic flexibility along with augmented local funding sources in some parts of the state have helped districts manage their budgets during the revenue downturn. Perhaps more significant than those measures has been the injection of temporary federal funding. In contrast to parcel tax revenues, these federal funds have benefitted most districts across the state, with a portion of the funds targeting high-needs students.

Money from the State Fiscal Stabilization Fund has prevented many teacher layoffs

The American Recovery and Reinvestment Act (or federal stimulus) enacted in February 2009 provided about $6 billion in one-time monies to California's K–12 schools, spread over three years. About half of that came through the State Fiscal Stabilization Fund (SFSF). The SFSF program was designed to help states shore up education funding in response to revenue drop-offs in 2008 and 2009. Local agencies have been able to use the funds for a wide variety of educational purposes. Large stimulus amounts were also added to existing funding streams—$1.5 billion in additional Title I funding to support the education of students from low-income families, and $1.3 billion in additional funding to support Special Education. All of these funds must be spent by the end of September 2011.

The 2009 survey by the LAO indicated that few districts spent much of their stimulus funding in 2008–09. Most respondents planned to use a significant percentage of the money in 2009–10. In fact, roughly 40% of districts planned to spend the bulk of their funds that year. However, a sizable number of the respondents had decided to spread the money over 2009–10 and 2010–11.

Although districts have varied somewhat in the timing of their spending, they are similar in how they are using the funds. On average, districts reported spending:

- 62% of their stimulus funds to prevent teacher layoffs;
- 19% to backfill reductions to categorical programs;
- 12% to make one-time investments;
- 7% to fulfill miscellaneous other purposes; and
- 1% to give raises to teachers.

The subsequent "Education Jobs" bill has also saved positions

In August 2010, federal policymakers enacted the Education Jobs and Medicaid Assistance Act, which provided states with an additional $10 billion to save or create PreK–12 education jobs. The funds were distributed to states based on total population and school-age population.

California received about $1.2 billion through the program. The funding was distributed to California's local education agencies (LEAs) proportionally on the basis of total revenue limit funding; however, it is restricted funding and must be spent in 2010–11 or 2011–12.[9] LEAs may not use the money for anything other than job creation or retention, and must report quarterly and annually on how they spend the money and the number of jobs created or retained. Anecdotal evidence suggests that the funds have generally been used to rescind furloughs and prevent layoffs.

Despite substantial federal aid, the number of California districts with qualified or negative certifications continues to grow

At least twice per year, local education agencies self-certify their ability to meet their financial obligations and submit that certification to their overseeing agency for approval. Districts submit the documents to county offices of education, and county offices submit theirs to the CDE. The three possible certifications include:

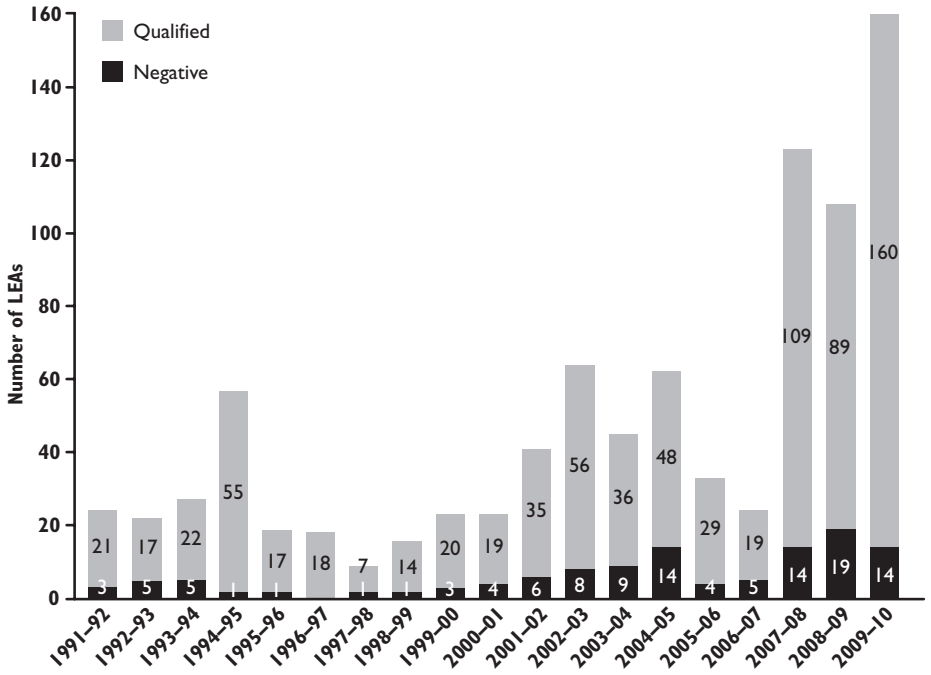
- *Positive:* the LEA will meet its obligations for the current fiscal year and two subsequent fiscal years;
- *Qualified:* the LEA may not be able to meet its obligations for the current fiscal year or two subsequent fiscal years; and
- *Negative:* the LEA will be unable to meet its obligations for the remainder of the fiscal year or the subsequent fiscal year.

Districts' financial statements reveal that a record number of California school districts are struggling to bring their expenditures and revenues into balance. Because districts are largely dependent on the state for their revenues, the cuts in state funding during the past several years have clearly taken their toll. Figure 4 shows that 174 out of 1,077 local education agencies—which includes school districts, county offices of education, and joint powers agencies—had qualified or negative certifications in 2009–10. The vast majority of the 174 LEAs with such certifications were school districts, but two were county offices of education and one was a joint powers agency.

Districts' financial statements reveal that a record number of California school districts are struggling to bring their expenditures and revenues into balance.

© Copyright 2010 by EdSource, Inc.

figure 4 **The number of local education agencies with qualified or negative certifications in the second interim reporting period has grown**



Notes: Districts and other local education agencies are required to file two interim reports each fiscal year on the status of their fiscal health. The first report covers the period ending Oct. 31, and the second report (shown in the chart above) covers the period ending Jan. 31.

All "negative" totals consist solely of school districts. The "qualified" totals are also mostly school districts, but they do include one county office of education (COE) in 2005–06 and 2006–07, two COEs in 2007–08, two COEs and one Regional Occupational Program in 2008–09, and two COEs and one joint powers agency in 2009–10.

Data: California Department of Education (CDE) EdSource 12/10

For districts that have already reduced their reserves and staffing levels drastically in recent years, few options remain and multiyear budget planning is a grim exercise. Already, districts have taken previously unthinkable actions to deal with fiscal difficulties.

When an agency receives a qualified or negative certification, it loses some of its financial autonomy. For example, a qualified rating for a district prompts the local county office of education to assign it a fiscal adviser. In addition, that district will need county office approval before borrowing funds through specific nonvoter-approved methods such as Tax Revenue Anticipation Notes or TRANs. It will also have additional reporting obligations, including a Third Interim Report due June 1.

Often, the district will work with the Fiscal Crisis and Management Assistance Team (FCMAT) to evaluate its financial position and develop a plan for improvement. FCMAT is overseen by an advisory board made up of county office and school district superintendents, plus an administrator from the CDE. It has regional teams of experts who can act as budget advisers when needed as part of county office budget reviews.

School agencies face worse times ahead

There is good reason to anticipate that more school agencies could soon find themselves in financial trouble. A combination of factors contributes to this.

Federal stimulus funds, though quite welcome to local school agencies, are one-time in nature and will soon be exhausted. The depletion of the larger pot of money (SFSF), though somewhat mitigated by the Education Jobs funding, will likely create a severe drop-off in local budgets as districts move from 2010–11 to 2011–12.

And economists' projections indicate that state and local funding sources will almost certainly not backfill that hole in the near future because of the slow economic recovery described earlier.

Policy decisions by state leaders and the electorate will also reduce, or constrain increases in, state revenues. For example, temporary increases in the personal income and sales tax rates will soon expire, and some tax benefits for corporations will continue or resume. In addition, Proposition 26, passed in November 2010, requires a two-thirds majority vote in the Legislature to pass many fees and levies that could previously be enacted by a simple majority vote. And by approving Proposition 22 in November 2010, state voters prohibited the state from borrowing from local governments, which the state has relied on in recent years.

As a result, for many districts the need to make cuts—likely including layoffs—will continue. For districts that have already reduced their reserves and staffing levels drastically in recent years, few options remain and multiyear budget planning is a grim exercise. Already, districts have taken previously unthinkable actions to deal with fiscal difficulties. For example, some districts have cut the school year or furloughed their staffs. Others have converted several schools to charter schools in the hope of benefitting from regulatory freedom and, in some cases, additional funding.

© Copyright 2010 by EdSource, Inc.

Obama administration programs represent seed money for reforms it hopes will be game-changing

When Congress passed the federal stimulus package, it granted President Barack Obama's administration considerable discretion in the allocation of funding. The administration used its authority to create incentives for states to adopt policies and practices that align with Duncan's goals of improving educational productivity. They fall into four reform areas—increasing the effectiveness of teachers and principals, creating rigorous assessments and standards across states, turning around the lowest-performing schools, and building statewide longitudinal data systems.

To date, the most direct impacts for California districts relate to turning around the lowest-performing schools. But the federal impact has been felt in other ways too: some school districts have received grants to develop promising innovations aimed at raising student achievement.

The School Improvement Grant program is providing generous funding and encouraging more aggressive intervention in the persistently lowest-achieving schools

One program that the Obama administration expanded and modified is the federal School Improvement Grant program. SIG provides substantial resources to districts that participate in Title I and have schools that are struggling to make progress on state tests.

The modified SIG focuses resources more intensely on the persistently lowest-achieving schools than did the prior version of the program. Specifically, interventions are now targeted at the lowest-achieving 5% of Title I schools that have also repeatedly missed academic performance targets. It also places more emphasis on middle and high schools, provides more resources for each participating school, calls for more significant school-level changes, and builds in more accountability measures.

California has recently received $416 million in SIG funding. To participate, districts in this state and elsewhere must commit to implementing one of four intervention approaches in their participating schools:

1. *Turnaround,* which includes replacing the principal and at least 50% of school staff, adopting a new governance structure, and implementing a new or revised instructional program. New governance structures could include, for example, appointing someone to lead turnaround efforts in the district or giving schools more freedom in exchange for more accountability. Districts also have to implement new teacher recruitment, professional development, and school calendar approaches as well as commit to continuous use of student data to improve instruction.
2. *Restart,* which involves closing a school and reopening it under the management of a charter school operator.
3. *Closure,* with students reassigned to other schools in the district.
4. *Transformation,* which includes enhancing teacher and principal effectiveness; reforming instructional practices; extending learning time (and building in more time for teacher collaboration and planning as well as more opportunities for family involvement); and providing more operational flexibility and ongoing technical assistance to the school.

Participating schools can adopt other practices/programs as well: for example, opportunities for high school students to do college-level work, credit-recovery programs, smaller learning communities, and partnering with community organizations to address students' nonacademic needs.

Participating districts receive funding for district-level operations (based largely on the number of schools facing interventions) and for school-level activities. Districts can get $50,000–$500,000 per year per participating school, which includes money for central office work. In addition, for school-level activities, districts receive at least $500,000 for each participating school for each of three years. However, school-level funding in the second and third years is contingent on academic progress. (Districts receive only $50,000 for relocating students or other expenses associated with closing a school.)

In March 2009, the State Board of Education identified 188 schools as eligible for participation based on their graduation rate and/or the percentage of students scoring proficient or above on California Standards Tests in English and math in 2007 through 2009. Of those, 113 schools applied. In August, the State Board of Education selected 92 schools to receive a total of $415.8 million. The 92 chosen schools include 44 elementary, 22 middle, and 26 high schools. Most are implementing the transformation model:

- 72 schools are using the transformation model;
- 32 schools are using the turnaround model;
- 7 are restarting; and
- 2 are closing.

Some stakeholders object to this program, stating that its approach lacks a foundation in the research on school reform. Others have complained that California's particular implementation of the program has been deeply flawed. These critics assert that the state's planning and district-selection process lacked transparency, adequate public

© Copyright 2010 by EdSource, Inc.

notice, and realistic timelines for schools to create sound applications. In addition, critics found the school-selection process problematic in that a specified level of progress could exempt a school from being chosen, which meant some schools in the second and third deciles on the state's Academic Performance Index (API) were selected in place of lower-scoring schools in the first decile (lowest 10%). Finally, some central office grant amounts seem excessive, as do some school-level grants. For example, one school with 131 students is receiving $10,178 per student per year, while some other schools are getting less than $1,000 per student per year. The median grant is about $1,800 per student.

Although participating schools may not have liked receiving the "persistently lowest-achieving" label and found the implementation frustrating at times, they are generally excited about the influx of funding and plan to use it in a variety of ways. Hillside Elementary in Alameda County, for example, is receiving $1,086 per student for each of three years. The school is implementing a transformation, offering more after-school programs, hiring three support teachers, and paying the existing teachers $1,000 stipends to boost retention and to pay for visits to students' homes.

Another school that is using the transformation model is Semitropic School in Kern County, which serves 234 students in kindergarten–8th grade. Semitropic is using its $5,514 per pupil to train teachers, buy new library books, replace a very old computer lab, hold extra sessions on Saturdays, and extend the school day to offer tutoring to all students.

The state expects to get funding to add some additional schools to the program in 2010–11. If this occurs, it is not clear whether the state will choose from the existing list of eligible schools or create a new list. State officials have also not indicated whether they will modify the selection process to address critics' concerns.

What remains to be seen for the schools participating currently is what will happen to them when they transition out of SIG. The schools know that the money is one-time in nature. But do they have plans in place for what to do when the funds are exhausted? Will they be able to sustain any improvements they make when they have fewer resources?

California's Quality Education Investment Act takes another approach to school turnarounds

The Quality Investment Education Act (QEIA) program is the result of a 2006 legal settlement involving Proposition 98 funding. The settlement originally called for payment of about $2.7 billion over seven years to selected K–12 schools, beginning in 2007–08. QEIA distributes about $400 million per year among 488 schools that were in the bottom two deciles (lowest 20%) of the 2006–07 Academic Performance Index (API).

Participating schools receive $500 per student in grades K–3, $900 per student in grades 4–8, and $1,000 for each student in grades 9–12. This means that a typical 650-student, K–6 elementary school eligible for the program would receive about $436,000 per year.

In return for the funds, schools must meet annual benchmarks for ratios of pupils to teachers and counselors, teacher qualifications and experience, and API growth targets. QEIA tends to maintain a participating school's governance structure and most staff, in contrast to most options under the modified School Improvement Grant (SIG) program.

Continuation of a school's QEIA funding after three years is contingent on making progress in the areas cited above. The current school year is the third year of participation for most schools in the program, so 2010–11 is a key year for the QEIA. A recent study of the program commissioned by the California Teachers Association (the plaintiffs in the case that ultimately produced the QEIA) found that the average participating school increased its API score by a greater margin than the average similar school not participating in the program.

Still, there will likely be some QEIA schools that do not meet all of their required benchmarks. Before the state cuts funding for such schools, the superintendent of public instruction must provide advance notice to allow the governing district a reasonable amount of time to make staff and other adjustments. The state must also cover the cost of such adjustments.

Although participating schools may not have liked receiving the "persistently lowest-achieving" label and found the implementation frustrating at times, they are generally excited about the influx of funding from the federal School Improvement Grant program.

The Investing in Innovation ("i3") program is providing more than $76 million for California-based organizations to expand new approaches

As part of the stimulus, federal officials provided $650 million nationally for an entirely new program called Investing in Innovation (or "i3"). The purpose of i3 is to develop and expand practices that show promise or have clearly demonstrated positive results in the following areas: improving student achievement, narrowing achievement gaps, increasing high school graduation rates, or increasing college enrollment and completion rates. Applicants could include 1) LEAs, and 2) nonprofit organizations in partnership with LEAs or a consortium of schools.

The i3 program provides three types of grants that differentiate between new ideas worthy of further exploration and proven

© Copyright 2010 by EdSource, Inc.

figure 5 | **Eight California-based organizations have won Investing in Innovation ("i3") grants**

Project Title	Organization Name	Amount Requested and Grant Length	Project Description
Development Grants			
Integrating English Language Development and Science: A Professional Development Approach	Exploratorium	$2,984,628 for five years ($600,000 per year)	Refine and expand a professional development program for teachers that integrates science instruction and English Language Development techniques.
Districtwide program development, expansion, and evaluation of the Education Pilot Project (EPP) for foster youth, and preparation for statewide scale-up	Advancement Through Opportunity and Knowledge	$3,649,580 for four years ($912,000 per year)	Expand, evaluate, and prepare for statewide scale-up of the Education Pilot Project, a service model designed to improve the academic outcomes and college enrollment of foster youth.
L.A.'s Bold Competition—Turning Around and Operating Its Low-Performing Schools	Los Angeles Unified School District	$4,880,392 for three years ($1.6 million per year)	Enhance the open competition for operators of schools in need of a turnaround in order to create a portfolio of high-performing schools. To do this, the project will enhance a school-choice selection process, support the implementation of school improvement plans, and implement accountability and continuous improvement measures.
STEM* Learning Opportunities Providing Equity	California Education Round Table Intersegmental Coordinating Committee	$4,982,527 for five years ($1 million per year)	Further develop a project-based, STEM-focused pre-algebra and algebra curriculum, college readiness curriculum, and teacher reflective collaborative coaching model to promote high achievement in math, especially among economically disadvantaged, English learner, and rural students.
CollegeYes	Alliance for College-Ready Public Schools	$4,989,786 for five years ($1 million per year)	Promote proficiency on academic content standards, as well as college matriculation and graduation, through professional development for teachers and the development of a virtual/real learning community.
Write to Learn!	Corona-Norco Unified School District	$5,000,000 for five years ($1 million per year)	Add specific components—technology, professional development, and curriculum coaching—to the writing program to provide more immediate information and support to high-needs students.
Validation Grant			
Scaling Up Content-Area Academic Literacy in High School English Language Arts, Science, and History Classes for High-Needs Students	WestEd	$18,166,181 for five years ($3.6 million per year)	Expand the Reading Apprenticeship model of academic literacy instruction to increase adolescents' literacy engagement, academic identity, and achievement.
Scale-Up Grant			
Success as the Norm: Scaling-Up KIPP's Effective Leadership Development Model	KIPP Foundation	$50,000,000 for five years ($10 million per year)	Scale up KIPP's leadership development model to increase dramatically the number of highly effective principals prepared to lead schools that place high-need urban and rural PreK–high school students on a path to success in college.

* STEM stands for science, technology, engineering, and mathematics.

Data: U.S. Department of Education

EdSource 12/10

© Copyright 2010 by EdSource, Inc.

reforms that need support in order to be expanded. The grants are for between three and five years and require a 20% matching grant from a foundation, donor, business, or service provider. The U.S. Department of Education (ED) describes the three types of grants roughly as follows:

- **Development** grants provide funding to support high-potential and relatively untested practices, strategies, or programs whose efficacy in addressing the areas listed above should be systematically studied. Successful applicants had to provide evidence that their proposed program, or one similar to it, had been attempted previously, albeit on a limited scale or in a limited setting, and had yielded promising results that suggested that more formal and systematic study would be warranted. The maximum amount for each grant was $5 million.
- **Validation** grants support programs that show promise but for which there is currently only moderate evidence that they will have a statistically significant effect. With further study, the effect of the program may be substantial and important. Each grant could be as high as $30 million.
- **Scale-up** grants facilitate substantial expansion of programs for which there is strong evidence that the proposed practice, strategy, or program will have a statistically significant effect in one or more of the areas listed above. The maximum amount for each grant was $50 million.

Together, the state's Investing in Innovation grant winners will receive about $19.7 million per year. They collectively represent several themes found in recent federal policy initiatives.

Based on a peer-review process, the ED awarded 49 i3 grants nationwide—30 development, 15 validation, and four scale-up grants. Many applicants did not request the maximum award amount.

Eight California-based organizations secured i3 grants, including six development, one validation, and one scale-up grant. (See Figure 5 on page 14.) Together, the state's grant winners will receive about $19.7 million per year. They collectively represent several themes found in recent federal policy initiatives—for example, helping economically disadvantaged students and English learners close the achievement gap, creating a college-going culture in K–12 schools, using technology to facilitate learning, and improving student achievement in science, technology, engineering, and mathematics (STEM). Figure 5 describes the details of the California-based projects.

The Obama administration has requested an additional $500 million for this program in fiscal year 2011 (Oct. 1, 2010–Sept. 30, 2011) for revised and additional applications, but the federal budget for the fiscal year 2011 has not yet been settled.

California has received funding through other federal programs

The federal government provides financial support targeted to several reform initiatives. Some programs received significant but temporary boosts through the federal stimulus package. Although the California Department of Education may be involved in distributing funding, the grantees are generally school districts and colleges/universities. The following programs have provided substantial funding to local entities in recent years:

- **Enhancing Education Through Technology**—provides grants to states and districts to improve student academic achievement through technology use, support technological literacy, and integrate technology with teacher training and curriculum development. The program's ongoing funding stream provided California with $29.1 million in 2009 and about $11.5 million in 2010. The stimulus added a temporary boost to the program, giving California an additional $71.6 million.
- **High School Graduation Initiative**—supports a number of strategies to increase the graduation rate in high schools with high dropout rates and their feeder middle schools. In September 2010, three California local education agencies—Los Angeles Unified, Pasadena Unified, and Riverside County Office of Education—were awarded a total of $4.5 million.
- **Smaller Learning Communities**—provides large comprehensive high schools with grants to create smaller, personalized environments and support common planning time for teachers. The federal Department of Education announced in September 2010 that 28 districts would receive grants totaling $52.2 million, of which about $8.9 million would go to six districts in California—Oakland Unified, Woodland Joint Unified, Baldwin Park Unified, Long Beach Unified, Antioch Unified, and Bluff Joint Union.
- **State Longitudinal Data Systems**—For federal support of California's data system, see the box on page 17.)
- **Teacher Incentive Fund**—supports efforts to develop performance-based teacher and principal compensation systems in high-needs schools. In September 2010, four groups of California schools, including two districts and two consortia of charter schools, were awarded grants totaling about $30 million over five years. About 70 schools in total will be participating.
- **Teacher Quality Partnership Program**—provides five-year grants for partnerships of higher education institutions and high-needs schools and districts to create model teacher preparation programs. In California, six higher education institutions won grants totaling about $53 million beginning in 2009, and one institution received a grant of $8.4 million beginning in 2010.

© Copyright 2010 by EdSource, Inc.

In the short term, California schools can expect some new policy requirements

In September 2010, economists with UCLA's Anderson Forecast predicted that the state and national economies—as measured by the unemployment rate and growth in personal income—would grow slowly through 2011 and not resume healthy growth rates until late 2012. The Anderson economists expect the state's unemployment rate to fall from 12.6% in September 2010 to 10% in 2012, and they forecast that annual growth in personal income will rise from 0.6% to 4.1% during that same period.

In its annual Fiscal Outlook, released in November 2010, the Legislative Analyst's Office also offered a forecast that the immediate future will be bleak. The LAO projected that fiscal years 2010–11 and 2011–12 will end with a combined general fund deficit of $25.4 billion unless corrective action is taken. Furthermore, the LAO forecasts that the state's current direction will lead to roughly $20 billion deficits annually through 2015–16. For education specifically, the LAO is predicting that the Proposition 98 minimum guarantee, which affects K–12 schools and community colleges, will drop by $2 billion in 2011–12. Thus, state revenues for schools will likely continue to decline at the same time that federal stimulus funds will be exhausted.

Policymakers' actions will add to districts' workload

These pessimistic forecasts followed shortly after the 2010 legislative session, during which lawmakers also added a few additional responsibilities to districts' plates.

The Open Enrollment Act could increase interdistrict transfers

Some stakeholders believe that allowing families to choose schools outside of their neighborhood creates market-like dynamics in public education. Families become like customers shopping for the school that best fits their needs and wants. Supporters of this view say it creates pressure for schools to improve so they can attract students and the funding that comes with them. Critics of school-choice programs point to mixed research findings on the effects of such programs on student achievement.

In early 2010, California policymakers enacted legislation making it easier for students in low-scoring schools to transfer to schools outside of their normal attendance area. The legislation, Senate Bill X5 4, is called the Open Enrollment Act.[10] The act required the CDE to create a list of the state's 1,000 lowest-performing schools and made schools on that list inform parents that they may choose another school for their child, including one outside their district of residence. The receiving district can add the new students to its average daily attendance (ADA) count and thus receive funding for them.

The act has the potential to affect all districts, not just those with schools on the list. Acceptance of students wishing to transfer is not automatic, however. Districts may adopt policies on accepting and rejecting applications for enrollment that take into account school capacity and financial impacts. And to the extent that a district has more students applying to its schools than it has room for, it must use the following priorities in accepting students:

1. Siblings of children already attending the school for which a student is applying;
2. Students transferring from a school in the bottom 10% (Decile 1) of the Academic Performance Index;
3. Students selected by lottery.

One controversial aspect of the program has been the selection of the so-called lowest-performing schools. If the 2010 selection process had been based on API scores alone, 938 of the 1,000 schools would have come from Decile 1, with the remainder coming from Decile 2. However, the legislation included a rule saying no more than 10% of a district's schools can be placed on the list. That rule was intended to promote geographic diversity among selected schools. In addition, there was a concern that if many students exercised the choice option, and the 10% rule were not in place, the large movement of students would cause employment displacements and a large drop-off in revenue for districts with a high concentration of low-performing schools.

The combination of the 10% rule and the large number of schools on the list meant that many low-scoring schools in some large districts could not be selected. This resulted in some schools with relatively high API scores being named among the lowest-performing schools in the state. For example, there were 18 middle schools from Decile 3 and 341 elementary schools from deciles 3–6. Among those elementary schools were 11 that had 2009 Base API scores that equaled or exceeded the established state API target of 800. In contrast, all selected high schools came from deciles 1 or 2.

It is too early to tell how many students will exercise their option to transfer schools, but if the experience of No Child Left Behind is a good predictor, the number of transfers will be relatively small. NCLB allows students in Program Improvement (PI) schools (those that have missed performance targets for two consecutive years) to transfer to non-PI schools, with the district of origin providing or paying for the transportation of transferring students for as long as the initial

© Copyright 2010 by EdSource, Inc.

school is in PI. A small number of families chose to move their children to a new school under NCLB's provisions. Because the Open Enrollment Act does not require the district of origin to provide or pay for transportation, transfers under the new program could be even more rare.

District staff may have to work with different CALPADS administrators if Gov. Schwarzenegger has his way

Schwarzenegger has for some time expressed frustration with the pace of implementation of the state's nascent student and teacher data systems. He has even sponsored legislation to transfer management of the projects from the CDE to an office within the governor's administration, a recommendation the Legislature did not approve.

In signing the 2010–11 budget, Schwarzenegger used his line-item veto authority to cut $10.3 million in federal funding that otherwise would have gone to the CDE and California School Information Services (CSIS) to further develop the two data systems. In addition, he called for legislation directing the funds to another entity to complete the systems.

The systems are formally known as the California Pupil Assessment Data System (CALPADS) and California Teacher Integrated Data Education System (CALTIDES). CALPADS is intended to collect and maintain data on student demographics, course-taking, and test scores, among other items. CALTIDES is intended to track information on teachers' training, credentials, and the classes they are assigned to teach. Policymakers authorized the creation of CALPADS in 2002 and CALTIDES in September 2006. The development of the two systems has been plagued with delays ever since.

All districts could not begin entering data on their students into CALPADS until October 2009, and implementation of CALTIDES has not yet begun.

Consultants diagnose the problems with the data system

CALPADS did not get off to the start that many hoped for; and in January 2010, the CDE brought in a consulting group, Sabot Technologies, to diagnose the problems. Sabot found the overall architecture to be sound but also pointed out weaknesses in software, databases, hardware architecture, and processes for revising data systems. In addition, the consultant found the project to be understaffed by IBM, the contractor on the project, and the CDE in terms of the number and expertise of the personnel involved. Soon thereafter, the project team ceased work on the unfinished elements of the project and instead focused on stabilizing the parts of the system that had been completed.

In May 2010, the governor declared in his revised budget that if the system could not receive and reliably transfer data by the end of the calendar year, the administration would seek to contract the project out to a consortium of local school districts and offices within the state's public higher education system.

Meantime, the project team completed its stabilization work and resumed operations. In July, Sabot released another progress report noting the system itself and project management had improved markedly but that the project was not complete and high levels of risk remained. According to staff involved with the project, improvements continued through the summer. However, the governor was apparently still not satisfied with the progress, as indicated by the line-item veto.

SPI O'Connell opposes CALPADS funding veto

Superintendent of Public Instruction Jack O'Connell reacted strongly, calling the move "shortsighted, ill-informed, and hypocritical." O'Connell admitted to "initial operational challenges" but said the system is working and that important data are being collected and reported because of it. According to CDE staff, 99% of districts and charter schools (representing 99% of students statewide) have successfully submitted enrollment and dropout data through CALPADS. O'Connell called this significant given the state's education spending cuts in recent years and the fact that the governor has repeatedly vetoed legislation calling for $5 per pupil to support districts' capacity to report data to CALPADS accurately.

O'Connell stated that with one more year of data the state could for the first time provide a four-year graduation rate based on the tracking of individual students over time. Such a report, though perhaps not based on

Federal funding has played a key role in the development of CALPADS and CALTIDES

A federal program offers funding to states to develop and implement longitudinal data systems, allowing them to analyze and use education data, including individual student records. Through this program, California received $3.2 million in 2006 to implement CALPADS and $6 million in 2009 for CALTIDES. However, California was not one of 20 states to receive a grant from the $250 million in additional funding made available through the stimulus.

Gov. Schwarzenegger used his line-item veto authority to cut $10.3 million in federal funding that otherwise would have gone to the CDE and CSIS to further develop the two data systems, CALPADS and CALTIDES.

© Copyright 2010 by EdSource, Inc.

perfect information, would represent an improvement over the estimates provided up to this point. O'Connell stated that the veto of CDE and CSIS funding would likely prevent the submission of accurate and timely data needed to provide sound information on graduation rates.

CDE staff have cited other problems they say will arise because of the funding veto. For example, subsequent submissions of data will be delayed and/or the quality of the data will be compromised. This includes, for example, data on the courses that teachers are leading and students are taking, as well as the grades they earn and information about English learners. CDE staff said that CALTIDES implementation would be delayed by at least one year as well.

Those short-term concerns may very well be realized, or perhaps the new Legislature will come to an agreement with the governor in his few remaining days in office that heads off some of these problems. The more medium- and long-term horizon of CALPADS and CALTIDES will be worked out in concert with the newly elected governor and superintendent of public instruction.

Creating a transitional kindergarten will be necessary

One of California's most significant education policy changes in 2010 was to raise by three months the minimum age for a student to enter kindergarten. Currently, children who turn 5 on or before Dec. 2 are admitted. Beginning in 2012–13, a student will have to turn 5 by Nov. 1. In 2013–14, the cut-off will be Oct. 1, and in 2014–15, the date will be Sept. 1.

A student with a birthday after the cut-off will be allowed to start kindergarten if the parents apply for early admission and the school district agrees that it would be in the best interest of the child.

However, most students with late birthdays will be placed in a transitional kindergarten, a new two-year program in which a modified kindergarten curriculum is supposed to be taught in the first year. The thinking behind the policy change, embodied in Senate Bill (SB) 1381, is that kindergarten has become more academically rigorous in recent years as standards-based education has taken root and that many of the younger kindergarten students are not ready developmentally for the academic work. Supporters of SB 1381 believe that ensuring that students are 5 when they officially enter kindergarten, and offering younger students an extra year of preparation, will help address the school readiness issue.

What remains to be seen is whether schools will offer a modified, transitional kindergarten curriculum and, if so, whether the modifications will be developed locally or by a state-level organization.

Plaintiffs in* CQE v. California *argue that education funding levels are not "based on what it costs to deliver all children a meaningful education, including the education needed for children to reach proficiency on the State's own academic content standards."

California's school funding system faces two legal challenges

Two complementary lawsuits filed in 2010—*Robles-Wong v. California* and *Campaign for Quality Education, et al. v. California*—call upon the state to make its finance system more rational and fund it accordingly.

Robles-Wong v. California was filed first

In May 2010, the California School Boards Association, Association of California School Administrators, and California State PTA filed a lawsuit against the state seeking a declaration that the current education funding system was unconstitutional. The plaintiffs assert that California has prescribed learning goals in the form of academic content standards adopted by the State Board of Education and has aligned instructional materials, teacher professional development, and assessments with those standards. Yet, the plaintiffs maintain, the state has made "no attempt to align funding policies and mechanisms with the educational program it has put in place, to determine the actual cost of the educational program, or to provide districts with the financial resources to provide the programs and services it has prescribed." The suit also asserts that the state does not take into account the learning needs of English learners and economically disadvantaged children. At the time the suit was filed, nine school districts and more than 60 students had joined as plaintiffs.

The suit calls for a new funding system that supports the implementation of California's rigorous content standards and reflects the learning needs of all students, but it does not present a specific alternative funding method or amount.

Campaign for Quality Education, et al. v. California has similar goals

Two months after *Robles-Wong v. California* was filed, the Campaign for Quality Education (CQE), the Alliance for Californians for Community Empowerment, Californians for Justice, and the San Francisco Organizing Project filed a similar lawsuit against the state. The plaintiffs in the second suit assert that California's constitution establishes a right to a meaningful education that will prepare students to succeed economically and participate in the nation's democracy, and that the state is violating this right. They argue that funding levels are not "based on what it costs to deliver all children a meaningful education, including the education needed for children to reach proficiency on the State's own academic content standards."

The plaintiffs would like the state to provide schools with more money, but they also seek to ensure existing and additional funds are used efficiently. For example, to use funds efficiently, the plaintiffs say, the state must have an adequate student data system;

© Copyright 2010 by EdSource, Inc.

support teacher development, evaluation, and effectiveness; and provide preschools for all low-income children. At the time the case was filed, more than 20 students and parents were also plaintiffs.

Resolution of the cases depends on state and court actions

Although it is theoretically possible that state lawmakers could, without further prompting, come up with a new design and funding level for California's school finance system that would motivate the plaintiffs to drop their lawsuits, it is not likely given the state's fiscal condition.

A more likely scenario is an out-of-court settlement. Other lawsuits challenging state policies—such as the *Williams* case filed in 2000 to create more equitable access to educational resources and the *Chapman* case filed in 2001 to delay the consequences of the state's exit exam for students with disabilities—were settled out of court. Indeed, California's outgoing secretary of education, Bonnie Reiss, expressed publicly in August 2010 that the state government was ready to settle the lawsuits. However, Reiss wanted settlement of the case tied to policy changes in other areas. For example, she sought plaintiffs' support for specific priorities of the Schwarzenegger administration, such as redesigning the teacher performance evaluation process and easing restrictions on school districts' ability to contract out for services or lay off teachers on any basis other than seniority.

To date, however, the state's official response has been to fight the suits within the court system. The Attorney General's office is contesting the plaintiffs' claims and has essentially filed motions to dismiss the two cases. In response, attorneys for the plaintiffs have filed their opposition to those motions, and the two sides were scheduled to present oral arguments on the matter shortly after this report went to press—on Dec. 10, 2010.

Because the attorney general typically defends the state in cases such as this, it is unclear whether Jerry Brown, as governor, will respond to the lawsuits in the same way that he has as attorney general.

Action on the overdue ESEA reauthorization remains doubtful in the near term

Regardless of the outcome of the court cases, California schools will continue to be affected by federal policies such as the Elementary and Secondary Education Act (ESEA).

President Lyndon Johnson signed the original ESEA in 1965 to support the education of the country's poorest children, and federal policymakers are supposed to reauthorize (revise and renew) the law every five to six years. They last took such action in 2002 when they created the No Child Left Behind Act (NCLB), so reauthorization is now well overdue.

Since 2002, ESEA has been a key driver in creating a school accountability system based on student test scores, but the proportion of funding it represents is less significant. States and U.S. territories receive more than $20 billion per year in total through ESEA. In California, the allocation of about $3 billion represents approximately 5% of total revenues for schools. The act supports a range of activities including reading in the early grades, professional development for teachers and principals, extra support for English learners, student testing programs, and before- and after-school programs.

In late February 2010, the House Education and Labor Committee began hearings on a bill related to ESEA reauthorization, but it dealt with charter schools, not a core issue in the debate. In early March, the Senate Health, Education, Labor, and Pensions Committee held its first hearing on ESEA reauthorization. And in mid-March, the Obama administration released *A Blueprint for Reform,* which sets out its vision of a reauthorized ESEA. Echoing many of the priorities described in the stimulus initiatives, the document focuses on five areas:

1. **College- and career-ready students**–The Obama administration is encouraging states to adopt academic content standards in English and math that will prepare all high school graduates for college and jobs that will support a family. In addition, the blueprint calls for assessments that are aligned with those content standards and that do a better job than current tests of assessing higher-order skills and student improvement. To avoid a narrow focus on English and math, the president's plan would support teacher professional development and instructional models that promote a well-rounded education.
2. **Great teachers and leaders in every school**–The administration is calling for a multipronged effort to improve the quality of instruction. This includes evaluating teachers and principals based partly on improvement in their students' test scores, developing new ways to recruit and retain effective teachers, increasing the effectiveness of teachers in high-needs schools, and monitoring teacher preparation programs and investing more heavily in the stronger programs.
3. **Equity and opportunity for all students**–This involves both rewards for schools that help students improve their academic achievement and intervention for struggling schools. It also includes extra support for traditionally lower-achieving student groups and a push for greater equity of resources between high- and low-poverty schools.
4. **Raise the bar and reward excellence**–President Obama wants to continue Race to the Top and expand it to allow districts to apply directly for funding rather than receiving it via a successful state application. (Race to the Top is a competitive grant program promoting reform in the four areas described at the top of page 12.) The administration is also proposing

The Obama administration's* A Blueprint for Reform *sets out a vision of a reauthorized ESEA and echoes many of the priorities described in the stimulus initiatives.

© Copyright 2010 by EdSource, Inc.

additional support for charter schools and other forms of public school choice as well as help for high-needs high schools to provide access to college-level courses and promote college-going.

5. **Promote innovation and continuous improvement**–Under this heading, the administration proposes continuing the i3 program, making some federal funding streams more flexible and more competitive, and supporting programs that link schools with other community organizations so students receive support in a number of areas in and out of school.

The administration also wants to change some of the most prominent aspects of NCLB—the assessment and accountability provisions. Obama's team supports the current disaggregation of test scores to monitor the performance of student subgroups but wants to add factors such as attendance, course completion, and school climate to school accountability systems.

In addition, the administration's proposal would eliminate NCLB's expectation that states should get all students to proficient on their respective standards-based tests by 2014. Instead, states would set their own improvement targets with respect to rigorous standards common across states. Schools that struggled to make progress would face differentiated interventions depending on their performance—as opposed to NCLB's imposition of Program Improvement for all schools that failed to make adequate yearly progress, no matter how far from the targets they were. In addition, schools that repeatedly failed to make progress would not necessarily have to give students the option of transferring out or provide supplemental instruction as is now required.

The extent to which the final reauthorized act will reflect the president's proposal remains to be seen. Washington insiders expect Congress to elect new leadership, name new committee chairs, and try to complete action on the federal budget this year but not achieve much else during the lame duck period. For 2011, some experts see glimmers of hope, while others do not expect reauthorization of ESEA until 2012—or even 2013, after the next presidential election.

Reg Leichty of EducationCounsel, a Washington, D.C., firm providing legal and policy advice on education issues, is cautiously optimistic about the prospects for ESEA reauthorization in 2011. "With Republicans now having more power in Congress, and some of those members being quite conservative and focused on greater local control," says Leichty, "a key factor will be whether they will be able to build a working coalition within their caucus around K–12 issues. That said, I'm betting that the two houses will vote on a reauthorization bill by the fall." However, Leichty believes that if Congress fails to act in 2011, Duncan might use his statutory waiver authority to make major changes to the law through regulation in 2012.

In contrast, Jack Jennings, a former longtime Congressional aide and current president and CEO of the Center for Education Policy in Washington, D.C., predicted in February 2010 that if reauthorization did not happen in the spring or summer of 2010, the current NCLB rules would remain in place until the 2012–13 school year. Jennings could not foresee bold legislative action shortly before the midterm elections and assumed that the new Congress seated in 2011 would need time to get organized before engaging in serious work on a reauthorization bill.

Other inside-the-Beltway experts and state officials are equally or more pessimistic about reauthorization happening any time soon. As reported on an *Education Week* blog in November 2010, about half of some 30 opinion leaders surveyed by Whiteboard Advisors, a policy-oriented consulting group, believe that reauthorization will not occur until 2013.

During the next few years, the current standards will remain in effect while state officials consider when and how to roll out the new standards in the field.

The timeframe of the state's implementation of Common Core standards remains uncertain

On Aug. 2, 2010, the California State Board of Education voted unanimously to adopt a new set of academic content standards in English language arts (ELA) and math. Content standards lay out what students are supposed to know and be able to do in each grade and subject. The new learning expectations grew out of the Common Core State Standards Initiative, a project intended to develop a set of specific, clear, rigorous standards that states can share. The initiative received important support from the federal government, which called for states to adopt some kind of common standards as part of the Race to the Top competition.

The Fordham Foundation, which has rated state standards for several years, found the Common Core to be clearer and more rigorous than ELA standards in 37 states and math standards in 39 states. However, Fordham gave California's standards in both subjects an A and gave the Common Core ELA standards a B+ and the math standards an A-. Before California adopted the Common Core standards, it modified them, particularly in middle grades math.

During the next few years, the standards that have been in place since 1997 will remain in effect while state officials consider when and how to roll out the new standards in the field. The newly elected governor, Legislature, and superintendent of public instruction, as well as appointed members of the State Board of Education, will all play key roles in the decision process. Implementing the new standards will require new curriculum frameworks, which guide standards-based instruction and the development, adoption, and purchase of new instructional materials. In addition, teachers and school leaders will need training. All of this will cost a substantial sum of money at a time when the state can ill afford it.

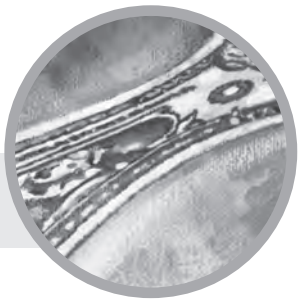
© Copyright 2010 by EdSource, Inc.

Lawmakers will need to decide whether to maintain the moratorium on updating curriculum frameworks and adopting new instructional materials. Policymakers established the moratorium in early 2009, and it is not scheduled to end until 2013–14. Even if it is lifted, the State Board of Education may not adopt instructional materials in math until November 2014, and in ELA until November 2016, according to a proposal that the CDE presented to the board in November 2010. The proposal indicates that those adoptions would not take place until 2017 and 2019, respectively, if the current moratorium is maintained in statute.

Whatever the Legislature decides, some stakeholders are raising questions as to whether the traditional instructional materials adoption process is the best way to get materials that match the lean budgets that districts now have. Thus, deliberations about implementing the Common Core could prompt discussions on improving the adoption process.

Another factor coming into play is the multistate effort to establish tests based on the Common Core. Two coalitions have been awarded federal grants to develop such tests. One is called SMARTER Balanced Assessment Consortium, and the other is called Partnership for Assessment of Readiness for College and Careers (PARCC). Both groups are aiming to have tests ready by 2014–15.

In 2010, outgoing California officials signed a nonbinding agreement to join PARCC. Michael Kirst, a professor emeritus of education at Stanford University and adviser to Governor-elect Brown, stated in November 2010 that he believes that incoming state officials should consider participating in both consortia and seeing what plans they develop, or consider becoming a "governing" state of one of the groups in order to gain more influence in its direction. Kirst, speaking to *Cabinet Report,* emphasized that he was expressing his own opinion and not that of Brown.



"Doing more with less" is a daunting challenge for California schools

In some ways, Secretary Duncan's recent urging to see school funding reductions as an opportunity for innovation are less applicable in California because of the conditions on the ground in this state. For example, Duncan suggests targeted increases to high school class sizes. That is a very different conversation with different consequences in this state, which has 43 teachers for every 1,000 high school students, than it would be in a state at the national average of 84 teachers per 1,000 students.

That said, some of Duncan's larger points about rethinking the status quo have special relevance for California because the fiscal conditions are severe and likely to remain so for years to come.

One of the secretary's larger themes was that education systems need to do more of what works and less of what does not. He called on state and local decision makers to rethink traditional policies and practices such as students' seat-time requirements, compensating teachers based on their education credentials, and over-placement of students in Special Education. The secretary said the "factory model of education" is outdated and that the wise use of technology can help schools personalize instruction.

However, although Duncan believes that "transformational change" could bring about better results and a more efficient use of resources, he also acknowledged that all parties involved in education still have much to learn about measuring, evaluating, and improving productivity. Further, the administration's creation of incentive programs such as Race to the Top and the i3 grants are nods to the fact that finding new ways to boost productivity can cost money and that it takes extra resources to be able to develop, test, and refine new approaches.

California has shown some willingness to innovate

It was with the hope of getting some resources to support innovation that California state officials revised some key policies and entered the federal Race to the Top (RTT) grant competition a year ago. In spring 2010, the state learned that its initial application was not successful. Some debate ensued about whether California should apply for funding in the second round, and then seven school districts came together to take the lead for California's second-round application. Those unified districts included:

- Clovis
- Fresno
- Long Beach
- Los Angeles
- Sacramento City
- San Francisco
- Sanger

It is notable that the group includes three of the four largest school districts in California and that they together serve a high proportion of students who face educational challenges such as poverty.

Although named a finalist in the second round, California ultimately did not receive a grant. But these districts have announced

© Copyright 2010 by EdSource, Inc.

plans to move forward together with some of the reforms discussed in the RTT application anyway. Specifically, they intend to implement the Common Core standards that the State Board of Education adopted, improve their use of student achievement data to inform instruction, and look for ways to provide greater support to their lower-scoring schools. Integral to these efforts will be attempts to learn from each other and create economies of scale.

To coordinate their work, these seven districts launched a nonprofit organization, California Office to Reform Education (CORE), in October 2010. The Silver Giving Foundation has awarded CORE a $3 million grant, which is the organization's primary funding source.

As this report went to press, CORE was still a relatively new organization. Both state and local decision makers will likely watch it with interest. The greatest hope for the participating districts is that they will work synergistically and develop new, more efficient approaches to helping students prepare for the demands of higher education and the workplace.

If President Obama is successful in convincing Congress to authorize a third round of Race to the Top funding in which districts could compete directly for funding—and CORE produces positive results—these seven California districts would likely be well positioned to compete for a grant.

The odds are difficult for the state as a whole

A few other California school districts and schools have received some extra resources to fuel innovation and improvement. A handful will have the chance to use i3 money to develop or bring to scale new strategies for addressing the achievement gap. Another 92 schools (out of nearly 10,000 schools in California) were selected for SIG interventions that in most cases also include large new investments. And yet another group of schools that are receiving funds through QEIA provide a test case for the theory that reducing staffing ratios, ensuring students have experienced teachers, and increasing accountability are the keys to improved student outcomes.

In a state with nearly 1,000 school districts and more than 6 million students—where education cuts amounting to billions of dollars have been made in recent years—these extra funds for innovation are definitely on the margin. This year, one out of six local educational agencies face the paradox of trying to invest in innovation and improve student achievement while struggling to just keep themselves fiscally solvent. And the state's continuing budget dysfunction is placing greater burdens on districts in regard to uncertain funding and funding deferrals that make cash flow a critical management concern.

Looking forward, school revenues could decrease more even as costs for such things as health care and pensions continue to rise. Districts are also called upon to respond to new policy demands and face uncertainties about whether the short-term flexibility that has helped them cope financially will continue.

All told, school districts in most other states are in a much better position to respond to the "new normal" with better, more cost-effective ways of operating schools and maximizing student achievement. Yet, in few other states is the need to do so more critical. It remains to be seen whether the Golden State—with its long history of creativity and innovation—can somehow beat the odds and succeed in these most challenging times.

ENDNOTES

1 The demographic composition of the responding districts was fairly representative of the state as a whole. In addition, five of the 10 largest school districts returned the survey.

2 Assembly Bill 142 did not alter the provisions of Proposition 20, which directs a portion of lottery revenues to instructional materials under certain circumstances. Under that measure, if education's share of the lottery revenue in a given year is higher than the amount provided in 1998–99, half of the overage is to be used only for instructional materials. In recent years, about 10%–15% of the lottery funds dedicated to schools have been earmarked for instructional materials.

3 Proposition 98, approved by the state's voters in 1988, amended the California Constitution to create a minimum spending guarantee for K–14 education (K–12 schools and community colleges). The guarantee reflects only state general fund monies and local property taxes allocated to K–12 schools and community college districts.

4 Capital outlay refers to spending on major pieces of equipment and constructing and modernizing buildings.

5 Physical plant refers to systems supporting the maintenance and operations of facilities—e.g., plumbing, electrical, and heating/ventilation systems.

6 The State Board of Education (SBE) adopts instructional materials for grades kindergarten through eighth. For grades 9–12, districts select their own materials using SBE-adopted curriculum frameworks and "standards maps" for guidance. (Standards maps show how materials align with the state's academic content standards.)

7 Until this policy change was made, districts were required to provide their students with instructional materials by the beginning of the first school term that began within two years of adoption by the State Board of Education.

8 Legislative Counsel is a state agency with lawyers who advise the Legislature and others.

9 The total revenue limit funding referred to is the 2010–11 Second Principal Apportionment ("P2").

10 The label refers to Senate Bill 4 of the fifth extraordinary legislative session of 2009–2010.

© Copyright 2010 by EdSource, Inc.

Budget Basics for Schools and Communities

Watch for an EdSource Budget Brief in January that describes the current year budget for K–12 schools—plus a separate brief on the state budget for community colleges.

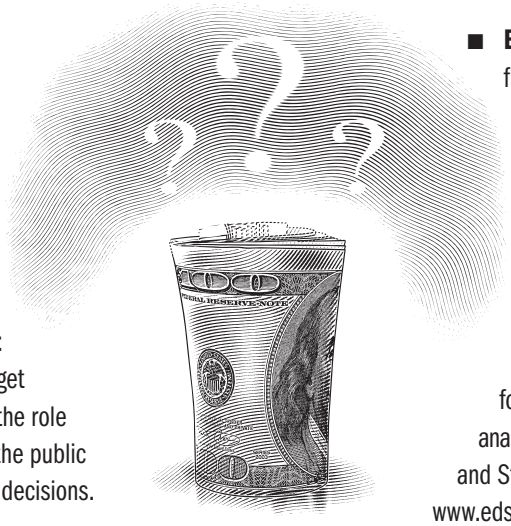
EdSource's tools for understanding and explaining California school finance can be found at: **www.edsource.org/school-finance.html**

The Basics

- **Finance System:** This section of EdSource's website provides concise explanations of school funding mechanisms in California.
- **District Budgets:** This website section provides information on the constraints districts face as they build and manage their budgets.
- **Budget Calendar:** This calendar shows the budget cycle for school districts and the state.
- **2010 Resource Cards on California Education:** This compact set of cards contains at-a-glance facts on California's education system, including finance data. *Available for purchase online.*
- **Glossary of Terms:** EdSource's online glossary contains more than 250 terms that define school finance and education policy. Find everything from adequacy to *Williams v. California.*

Presentation Tools

- **Q&A: The Basics of California's School Finance System:** This two-page summary, updated January 2009, is ideal for community meetings and those new to school finance. *Free download.*
- **Q&A: The School District Budget Process:** This Q&A discusses budget pressures facing school districts, the role of collective bargaining, and how the public can influence local school budget decisions. *Free download.*



- **School Finance in California: Understanding Our Complex System:** This 21-slide presentation explains the basics of California school finance. *Download a PDF of the presentation for free.*

Follow-Up Questions

- **School Finance FAQs:** EdSource has compiled answers to some of the most frequently asked questions on school funding. If you have additional questions, e-mail us at edsource@edsource.org and a member of our research staff will provide you with the information you need.

Digging Deeper

- **Selected Readings on California School Finance:** The definitive textbook on California school finance has all of our most popular school finance publications plus an overview of the system. www.edsource.org/pub_SelectedReadings.html *The 2011 edition will be available to purchase in January. You can order a printed version or download a PDF.*
- **Ed-Data Website:** Access detailed financial data about school districts, county offices of education, and the state. www.ed-data.org

News and Resources

- **School Finance News and Resources:** Provides updated news and resources on school finance, including the federal stimulus, California education headlines, and policy analyses from School Services of California and Strategic Education Services. www.edsource.org/iss_fin_news.html

You are invited to link to any of our school finance web content from your own website. Many of our pages can be e-mailed or printed.

© Copyright 2010 by EdSource, Inc.

To Learn More

The Education Data Partnership (Ed-Data) website provides a wealth of financial data on the state as well as individual school districts and county offices of education. Most of the information from Ed-Data cited in this report can be found by going to the home page, www.ed-data.org, clicking on the link to state reports, and then choosing "Financial Reports for State."

For a transcript of Secretary Arne Duncan's Nov. 17, 2010 speech, go to: www.ed.gov/news/speeches

On the Legislative Analyst's Office website, www.lao.ca.gov, one can find the publications referred to in this report—*Year One Survey: Update on School District Finance and Flexibility* and *The 2011-12 Budget: California's Fiscal Outlook.*

For information about California's applications for Race to the Top funding, see: www.caracetothetop.org

A Blueprint for Reform, the Obama Administration's proposal for a reauthorized Elementary and Secondary Education Act, can be found at: www2.ed.gov/policy/elsec/leg/blueprint/blueprint.pdf

School Services of California, Inc. can be found online at: www.sscal.com

The California Department of Education survey on cutbacks that local education agencies have made is located at www.cde.ca.gov/nr/ne/yr10/yr10rel71.asp. Information about CALPADS and CALTIDES can also be found on the CDE website. See, respectively, www.cde.ca.gov/ds/sp/cl/ and www.cde.ca.gov/ds/dc/es/caltides.asp.

The analysis of the academic performance of schools in the Quality Education Investment Act (QEIA) program, *Lessons from the Classroom: Initial Success for At-Risk Students,* can be found at: www.cta.org/Issues-and-Action/QEIA/QEIA.aspx

To read about *Robles-Wong v. California* and *Campaign for Quality Education, et al. v. California,* see, respectively, www.fixschoolfinance.org and www.fairschoolsnow.org.

The Fiscal Crisis and Management Assistance Team website can be found at: www.fcmat.org

EducationCounsel can be found online at: www.educationcounsel.com

Acknowledgments

This report was researched and written by:
Brian Edwards

With research support from:
Liz Terry
Smita Patel
Raquel Gonzales

Edited by:
Mary Perry

EdSource®
Clarifying Complex Education Issues®

Trish Williams
EdSource Executive Director

2010–11 EdSource Board of Directors

Carl A. Cohn, President
Co-Director, Urban Leadership Program, Claremont Graduate University

Lawrence O. Picus, Vice President
Professor, Rossier School of Education, University of Southern California

Kenneth F. Hall, Fiscal Officer
Executive in Residence, University of Southern California

Susan K. Burr, Secretary
Executive Director, California County Superintendents Educational Services Association

Davis Campbell, Immediate Past President
Senior Fellow, UC Davis School of Education

Brice W. Harris
Chancellor, Los Rios Community College District

Reed Hastings
CEO, Netflix, Inc.

Gerald C. Hayward
Co-Director (Retired), Policy Analysis for California Education

Barbara Inatsugu
Program Director for Education, League of Women Voters of California

Santiago G. Jackson
President, Santiago G. Jackson, Inc. Education Consulting

Loren Kaye
President, California Foundation for Commerce and Education

Carol Kocivar
President-Elect, California State PTA

Kelvin K. Lee
Superintendent (Retired), Dry Creek Joint Elementary School District

John B. Mockler
President, John Mockler & Associates, Inc.

Amado M. Padilla
Professor, School of Education, Stanford University

Don Shalvey
Deputy Director, U.S. Program, Education, Bill & Melinda Gates Foundation

Michael Stone
Teacher, Aliso Viejo Middle School

Gloria Taylor
Co-President, American Association of University Women–California

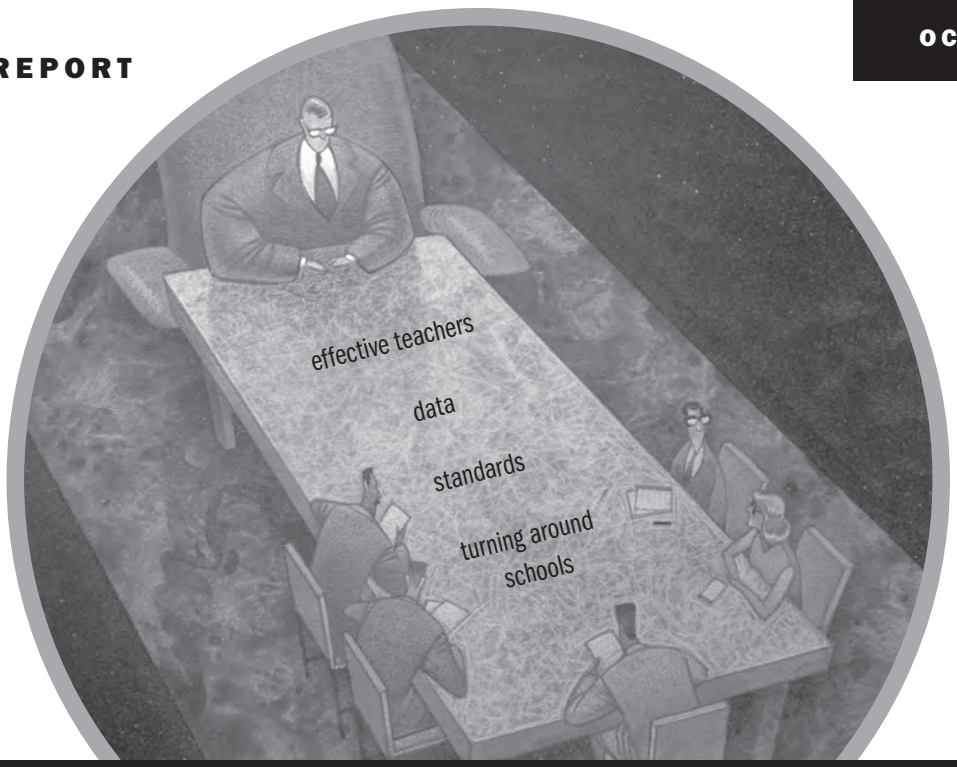
© Copyright 2010 by EdSource, Inc. *Please call or e-mail EdSource for reprint or dissemination permission.*

EdSource ■ 520 San Antonio Rd, Suite 200, Mountain View, CA 94040-1217 ■ 650/917-9481 ■ Fax: 650/917-9482 ■ edsource@edsource.org
www.edsource.org ■ www.ed-data.org

EdSource® Clarifying Complex Education Issues®

REPORT

OCTOBER 2009



The Education Components of the Federal Stimulus

HIGHLIGHTS

■ **Components**
The American Recovery and Reinvestment Act (ARRA) includes an array of funds to help stabilize hard-hit districts plus competitive grants aimed at reform 2

■ **Reform Areas**
Federal expectations in the four major areas present myriad challenges for California 6

■ **Summary**
This visual aid lays out the requirements that [illegible] stimulus funds relate to the reform areas 10

■ **Discussion**
Much-needed federal funding has short- and long-term [illegible]

EdSource thanks the William and Flora Hewlett Foundation, whose core support enabled the development and dissemination of this report.

As this report went to press, California legislators were meeting in a special session to consider measures that would improve the state's chances of winning a grant from a new federal program called "Race to the Top."

That competitive program is one of several rooted in the February 2009 federal economic stimulus package aimed [illegible] stimulus has provided much needed [illegible] through Race to the Top and other smaller discretionary grant programs. The additional funding that California could secure is small relative to the state's overall education budget. But policymakers in Sacramento feel great pressure to align [illegible] details [illegible] California's recent efforts in the four reform areas, and assessing what would need to be done to align state policies with the new federal objectives both in the short and long term.

Federal education officials are calling for reform in four broad areas—teacher and [illegible] data systems, standards, and turning around schools. [illegible] broadly and deeply, and California's stakeholders see promising aspects and some that cause concern. Washington's aggressive initiatives could re-open old debates in this state over such issues as how teachers should be evaluated and what the specific learning expectations for California's students should be. State policy-[illegible] [illegible] a reauthorization of the Elementary and Secondary Education Act (known as No Child Left Behind).

Excerpted from *The New Federal Education Policies: California's Challenge*, published by EdSource in October 2009.

Update

The U.S. Department of Education allocated Race to the Top competition funds in two cycles. In the first cycle, only two states won awards: Delaware and Tennessee. On Aug. 24, 2010, the 10 winners of the second cycle were announced. California was one of the finalists but did not receive an award.

EdSource® is a not-for-profit 501(c)(3) organization established in California in 1977.
Independent and impartial, EdSource strives to advance the common good by developing and widely distributing trustworthy, useful information that clarifies complex K–14 education issues and promotes thoughtful decisions about California's public education system.

California is benefiting from a temporary increase in federal funding

The education component of the American Recovery and Reinvestment Act (ARRA), also known as the federal stimulus, has been described by President Barack Obama as "the largest investment in education in our nation's history." It provides more than $100 billion for prekindergarten through 12th grade schools nationwide, and nearly $8 billion for California. This one-time infusion of additional federal money for 2008–09 and 2009–10 is more funding than California would receive from ongoing federal education programs in a single normal year, but it is substantially less than the cuts in state education funding since 2007–08.

The stimulus is tied to a federal reform agenda

The stimulus package's education components are intended to do much more than save school programs and positions. They create incentives for states to begin or continue specific reform efforts in four interrelated areas that the Obama administration believes are key to helping schools provide a world-class education to their students. States have access to much of the stimulus package's education funding only if they commit to pursuing reform in these four areas:

1. Increasing teacher and principal effectiveness and equitable distribution of effective staff;
2. Establishing data systems and using data for improvement;
3. Adopting rigorous college- and career-ready standards and high-quality assessments; and
4. Turning around the lowest-performing schools.

On paper, California has made those commitments. And as of Aug. 28, 2009, the state's local education agencies had already received more than $3 billion—some of it through existing programs and some in return for agreeing to the four assurances. More funding arrived in September through those same channels. Some of it was conditioned on both the state and school districts meeting specific reporting and planning requirements. Those were described in a preliminary draft released by federal officials in July. By early 2010, districts should have received the remainder of the nearly $8 billion.

However, California may be able to secure funding beyond that. The additional funds would come through competitive grant programs run by the federal Department of Education, the largest of which is Race to the Top (RTTT). This program will provide a total of $4 billion to a handful of states that have created conditions for bold, comprehensive action in the four reform areas. A smaller program, known as Invest in Education or "i3" will provide a total of about $650 million to school districts and public-private partnerships experimenting with promising ideas or trying to expand proven programs. In June 2009, federal Secretary of Education Arne Duncan cast some doubt on California's ability to win some of those competitive grant monies. He said that the state had "lost its way" as a leader in public education, and he issued a challenge: "Your state once had the best education system in the country. From cradle to career, you took care of your children. You made sure they were ready to enter your universities or be productive participants in the workforce. I ask you, is California going to lead the race to the top or are you going to lead the retreat?"

As this report was being prepared, officials in Sacramento were trying to improve the state's chances to win Race to the Top funds. The governor had called a special legislative session and sponsored a bill (SBX5 1) coauthored by Democrats and Republicans to align some state policies with the new federal initiatives. However, California has work to do before it will have laid the groundwork for the reforms that federal officials are calling for.

The stimulus package has many components

Understanding how all the education components of the stimulus fit together and how much money they represent helps clarify the role that competitive grants play in the overall package. Each component has multiple facets, including:

- eligibility requirements;
- timeline;
- amount of funding;
- the program umbrella it is under; and
- whether states receive the funds according to an established formula or must compete for them.

The stimulus package's education components can be thought of as three groups of programs—large, formula-driven pots of money distributed quickly to save jobs; supplements to smaller existing programs also driven by formulas; and a group of competitive grant programs. (Five of those programs are listed in the table on page 4.)

The largest components of the stimulus package for schools total $5.6 billion

The three largest components of the K–12 education stimulus package total about $5.6 billion for California. Two of the three are substantial add-ons to existing federal programs—an additional $1.125 billion for Title I, Part A (grants to help local agencies educate disadvantaged students), and an additional $1.227 billion for Individuals

© Copyright 2009 by EdSource, Inc.

with Disabilities Education Act, Part B (Special Education). Combined, this represents roughly a 75% one-time expansion of California's share of these federal funds. Districts began receiving funds in May.

The third program—the PreK–12 portion of the State Fiscal Stabilization Fund (SFSF)—is new. The SFSF program is designed to help states shore up education funding that was cut in response to revenue shortfalls, and the funds can be used to serve a variety of educational purposes. California will receive a total of $3.243 billion in PreK–12 Stabilization funding. The state was supposed to receive two-thirds of the funds in

Formula-driven education components of the federal stimulus package are not competitive

The Three Largest Components				
Component and Purpose	**California's Share**	**Accessing the Funds**	**Timeline to California**	**Timeline to Districts**
PreK–12 Portion of the State Fiscal Stabilization Fund (Reduce need for layoffs, promote reforms)	$3.243 billion (new program)	Application by the governor, committing to pursuing reforms and collecting data	90% (Phase I) already disbursed 10% (Phase II) in fall 2009 upon approved report on specific indicators under the four assurances	Phase I: Issued by fall 2009 Phase II: In fall 2009
Title I, Part A (Disadvantaged students)	$1.125 billion (above existing allocation)	Current funding formula	50% went to the California Department of Education (CDE) in spring 2009 50% in September 2009	50% disbursed to local education agencies (LEAs) in spring 2009; remainder distributed by June 30, 2010
IDEA, Part B (Special Education)	$1.227 billion (above existing allocation)	Current funding formula	50% went to CDE in spring 2009 50% in September 2009	Periodically from June 2009 through January 2010
Supplements to Existing Smaller Programs				
Existing Program	**New Funding Component—California's Share**	**Accessing the Funds**	**Projected Timeline**	
Child Development Block Grant	$220.3 million	Current funding formula	Part of 2008–09 allocations	
Education for Homeless Youth	$13.8 million	Current funding formula	Disbursed beginning in July 2009	
Child Nutrition Equipment Grants	$12.9 million	To states by formula; to districts by competitive grants	Disbursed beginning in July 2009	
Education Technology	$71.6 million	To states through formula. CDE will distribute half to LEAs with approved Ed Tech plans based on their proportion of Title I, Part A, funding. The other half will be disbursed in a competitive process.	Applications for LEAs were available at the end of September 2009. At that time, CDE planned to distribute the funds to LEAs "by the end of the year."	
Title I School Improvement Grants (above existing allocation)	$351.8 million	Application process for funds, which are distributed by states by formula. State subgrants must be between $50,000 and $500,000. USDE is proposing that significant funding be spent on high schools.	State applications available in late summer. LEA applications will follow, with funding distributed in fall 2009.	

Sources: California Department of Education (CDE), U.S. Department of Education (USDE), September 2009 EdSource 10/09

© Copyright 2009 by EdSource, Inc.

California and local districts will have to compete for a share of education stimulus funds

Program	Stimulus Funds Available Nationally	Accessing the Funds	Projected Timeline
Race to the Top	$4.35 billion, including $350 million for assessments	Competitive grants awarded in two rounds–for states only	The first round will open in late 2009, with awards made in early 2010. The second round will open in late spring 2010, with awards made by September 2010.
Invest in Innovation Fund	Up to $650 million	Competitive application process–for LEAs and public-private partnerships	According to an Aug. 20, 2009 speech by U.S. Secretary of Education Arne Duncan, applications are expected to be available in fall 2009 and awards are expected in spring 2010.
Teacher Quality Enhancement Grants (recruitment and retention)	$100 million	Competitive grant process for states, grants administered by higher education institutions in state	Applications were due July 23, 2009. Public universities take the lead on these applications.
Teacher Incentive Fund (alternative pay structures)	$200 million	Competitive grants to school districts, states, and partnerships	When this report went to press, USDE planned to release program guidance in fall 2009.
State Longitudinal Data Systems	$250 million	Competitive grant process for states	Grant application is due on Nov. 19, 2009.

Sources: U.S. Department of Education (USDE), California Department of Education (CDE), EducationCounsel , September 2009 EdSource 10/09

the spring, but, pleading hardship, received 90% instead. The remainder is due in fall 2009. The U.S. Department of Education (USDE) structured the disbursement this way to help fill states' budget gaps quickly while buying time to develop detailed requirements tied to the funding.

State access to the first installment required only a brief application from the governor and an assurance to pursue reform in four areas. Gov. Arnold Schwarzenegger submitted the state's application in April, which prompted federal officials to release two-thirds of California's portion (later increased to 90%). School districts could then apply to the state for funds by submitting online a commitment to the four assurances. The money arrived at school districts in mid-June.

In late July, USDE released preliminary guidance on the reporting requirements attached to the Stabilization funds. For each of the four reform areas, federal officials have established quantitative and descriptive information they want from the state and, in many cases, all local education agencies (LEAs).

To be eligible for the second phase of Stabilization funding, states must submit a plan describing their current ability to collect information on those indicators and make it publicly available. If they are not currently able to do so, they must describe their timeline and process for creating the capacity to report on the indicators. This work is to be completed as soon as possible, but no later than Sept. 30, 2011. This is part of the Obama administration's push for greater transparency on the part of state and local education agencies.

After a 30-day "comment period," in which people could suggest revisions to the preliminary guidance, USDE began reviewing and responding to comments. The final regulations are expected by early November 2009.

Stimulus funding supplements other, smaller programs

California has also begun to receive a total of $670.4 million that the federal stimulus added to a number of existing programs, such as Child Care and Development, Education for Homeless Youth (McKinney-Vento), Child Nutrition Equipment, Education Technology, and Title I School Improvement.

The table on page 3 outlines the key aspects of the formula-driven (noncompetitive) education components of the federal stimulus package—the three largest, as well as the add-ons to five existing programs that do not relate directly to the four reforms.

The stimulus package provides funding for a number of other programs related to education but not directly to K–12 school operations. For example, California is receiving nearly $3 billion for facilities construction and renovation, mainly in the form of subsidized bonds. In addition, Special Education funding for infants and preschool-age children and their families, as well as general preschool money, is available.

The stimulus also provides competitive grants

The education portion of the stimulus also includes a number of competitive grants. (See the table above.) These include:

- the Race to the Top program, which goes only to state governments and requires them to develop a coordinated approach to addressing the issues in the four assurances;
- the "Invest in Innovation" or "i3" program, which provides funding for districts and public-private partnerships to explore promising ideas and expand small but successful programs; and

 © Copyright 2009 by EdSource, Inc.

- more targeted grant programs for data systems and for teacher recruitment, retention, and quality.

The application for the Race to the Top competitive grant program is demanding

The $4.35 billion available nationally in the Race to the Top program is by far the largest amount of money over which USDE has ever had discretion. Duncan announced in June 2009 that he was setting aside up to $350 million to help states improve their assessments so that they move beyond multiple-choice questions and focus more on critical thinking skills. (Detailed information on the funding conditions and timeline of the testing program were not available when this report went to press.) This leaves about $4 billion for other RTTT grants. The department plans to make large grants to a few states rather than spreading the funds thinly across a large number of states.

RTTT grants will be awarded in two rounds. The current schedule calls for first-round applications to be submitted to USDE by late December 2009. Awards will be announced in February or March 2010. Second-round applications will be due in late spring 2010, and awards will be made in late summer. States that win grants in round one will not be eligible for additional money in the second round, but those that are not successful at first will be allowed to apply in round two. States that secure a RTTT grant must distribute at least half of the award to local education agencies based upon their share of Title I, Part A ("Basic Grant") funding. The state can spend the other half on state-level activities and further disbursements to local agencies.

The Race to the Top application—as proposed in July 2009—must address eligibility requirements, an "absolute priority," selection criteria, and competitive priorities. Applicants are also encouraged to consider "invitational priorities."

Eligibility requirements

To be eligible to apply for a Race to the Top grant, states must first meet two conditions:

1. The state's application for funding under Phases One and Two of the Stabilization program must have been approved. This will be determined during fall 2009.
2. The state must have no legal restrictions on using student achievement data to evaluate teachers and principals. This has been a controversial issue for California .

Absolute priority

After a state is deemed eligible to apply, it must meet the *absolute priority* of addressing each of the four reform areas comprehensively, thus demonstrating a systemic approach to reform. Again, the reform areas are teacher and principal effectiveness, data systems, standards, and turning around struggling schools. Applications must also address all 19 *specific selection criteria.* The selection criteria are divided between *reform conditions* needed to make USDE's envisioned reforms possible and *reform plans* for achieving the specific reforms that the department has in mind under each of the four areas.

Selection criteria

USDE has also articulated five *overall selection criteria,* three of which are reform conditions and two of which are reform plans. The conditions include:

- the extent to which a state has made progress in the four reform areas, increased graduation rates, and improved test scores on the National Assessment for Educational Progress or NAEP, a federal testing program;
- whether several stakeholder groups—teachers unions, the business community, civil rights organizations, grant makers, and local education agencies—have committed to reform; and
- how favorably a state's K–12 and higher education funding in 2008–09 compared with that of 2007–08.

Regarding reform plans, the department is looking for states with:

- ambitious yet achievable goals to raise overall student achievement and close gaps among student subgroups; and
- an ability to effectively and efficiently oversee a potential grant, sustain reforms beyond the grant period, and collaborate with local education agencies and possibly other states.

Competitive priorities

If a state has met the two eligibility requirements and made a convincing case on the 19 indicators and the five overall selection criteria, its application will then be judged by competitive priorities.

A state will receive competitive preference if it plans to work with industry, universities, and other community partners to offer more rigorous courses in the STEM fields—science, technology, engineering, and mathematics.

Invitational priorities

USDE characterizes invitational priorities as reforms that it is encouraging, but it says these reforms will not play a role in determining which state is chosen for a grant. As the RTTT process moves forward, it is possible the department will provide more clarity on this point.

Invitational priorities include:

- Incorporating into states' longitudinal data systems information on Special Education, English acquisition, finance, and other areas;
- Working with other states in running data systems;

Districts must document their use of Stabilization funding

In exchange for Stabilization funding, districts are expected to not only pursue reform in the four areas, but also report quarterly on their use of the funds. For example, districts must document the number of jobs created or retained, the status of projects funded by stimulus monies, vendors paid by said funds, and the districts' five most highly paid individuals, among other items.

© Copyright 2009 by EdSource, Inc.

- Creating seamless connections among multiple education segments—early childhood, K–12, postsecondary institutions, and workforce organizations—so the systems are aligned and people can more easily navigate transitions as they progress in their academic and professional careers. (This goes well beyond simply linking the data of the education segments.)
- Having local education agencies provide school sites with autonomy in selecting staff, configuring the school day and year, crafting budgets, awarding credits to students based on performance instead of seat time, and partnering with outside agencies to provide comprehensive services to high-need students.

The stimulus package also includes some more narrowly tailored competitive grants

In addition to the large Race to the Top program, which emphasizes a comprehensive approach to a broad array of reform efforts, the stimulus package has smaller competitive grant programs with narrower purposes.

The new **Invest in Innovation** program will provide up to $650 million in grants to local education agencies, school consortia, and partnerships between nonprofit organizations (including colleges and universities) and districts or schools. In August, Duncan provided a rough schedule for the release of proposed guidance, a comment period, and then an application process, with grants awarded in "early 2010." He said he has in mind three categories of grants to support organizations and ideas that advance the four reform areas:

- Pure Innovation grants of up to $5 million for promising ideas that should be tried;
- Strategic Investment grants of up to $30 million for programs that need to build a research base or organizational capacity at a larger scale; and
- Grow What Works grants of up to $50 million to expand proven programs.

The existing **Teacher Quality Enhancement Grant** program received an additional $100 million from the stimulus package. Under the program, states can apply for grants to improve their teacher recruitment, preparation, and certification practices. In addition, partnerships of colleges/universities and high-need LEAs can apply for grants to bolster the preparation and professional development of teachers.

Reflecting a growing interest in alternative systems of compensating teachers, the stimulus boosts the **Teacher Incentive Fund** by $200 million. To date, this program has rewarded districts, states, and partnerships between such governmental entities and nonprofit organizations for establishing systems that offer more pay for teachers and principals in high-need schools and factor performance evaluations into teachers' compensation. As this report went to press, USDE was considering proposing changes to the program that had not yet been made public.

Finally, the stimulus package added $250 million to the existing federal program to support statewide **longitudinal data systems.** Under this program, states receive grants of $2 million to $20 million to design and implement data systems that link preschool, K–12, postsecondary, and workforce data. To be eligible for a grant, a state must commit to establishing a data system that includes the 12 elements described by the 2007 America Creating Opportunities to Meaningfully Promote Excellence in Technology, Education, and Science (COMPETES) Act.

© Copyright 2009 by EdSource, Inc.

Selected Readings on California School Finance

Chapter 4
District Budgeting

Understanding School District Budgets

A GUIDE FOR LOCAL LEADERS

JANUARY 2005

EdSource®
Clarifying Complex Education Issues™

About EdSource

Independent and impartial, EdSource strives to advance the common good by developing and widely distributing trustworthy, useful information that clarifies complex K–12 education issues and promotes thoughtful decisions about California's public school system.

A unique statewide nonprofit, EdSource is an invaluable resource for everyone who cares about California's public schools.

About this publication

This new guide updates one of EdSource's most popular publications, *Understanding School Budgets: As Simple as 1,2, 3.* New administrators, school board members, and interested teachers, parents, and community members have depended on this publication since 1988 to learn about school district budgeting and become more effective participants in finance-related decisions. This new version continues that tradition in the context of a new state accounting system and increasing pressure on schools to improve student performance.

Additional copies of this guide are available from EdSource for $8 (plus $2 shipping). Bulk discounts are given for orders of 10 or more. Orders can be placed through the office or the EdSource website.

This report has been prepared by
Mary Perry, author
Isabel Oregón, research support
Susan Frey, editor
Updated from a report originally developed by **Penny Howell** and **Barbara Miller.**

EdSource developed this publication in partnership with the **Fiscal Crisis and Management Assistance Team (FCMAT)**.

© Copyright 2005 by EdSource, Inc.

Understanding School District Budgets: A Guide For Local Leaders

A school district budget is more than numbers. It is a record of a district's past decisions and a spending plan for its future. It shows a district's priorities whether they have been clearly articulated or simply occurred by default. And it is a communications document that can tell constituents a lot about the district's priorities and goals.

A school district budget can certainly be difficult to understand and even more challenging to describe. But behind the volumes of mandatory reporting forms, accounting procedures, and jargon are some basic principles that can help bring clarity for those who develop school district budgets and for those who want to understand them.

Some California school districts use their budget documents to do more than just present financial data. They directly connect their financial decisions to their goals for student, school, and district performance. At best that effort can further those goals. At a minimum it can illuminate some of the obstacles to realizing them.

This guide provides an overview of the mechanics of the budget process and the documents most commonly used to describe a district's financial condition. It begins with a budget calendar and glossary that provide context for the rest of the report. The guide reviews the information school district officials must use for responsible fiscal management, the inevitable adjustments districts must make in their budgets, and the oversight procedures the state has put into place to ensure that districts remain solvent and maintain their financial health. Finally, this report explores some ways that budget information can help decision makers evaluate how well district spending matches educational goals, set priorities consistent with those goals, and plan expenditures that are aligned with that vision.

TABLE OF CONTENTS

District Budgeting Operates Within a Set Framework 4
Illustration #1: Major General Fund Revenue and Expenditure Categories 7
A District's First Budgetary Responsibility Is To Be Fiscally Sound 8
Illustration #2: Sample Combined General Fund 9
Illustration #3: Sample First Interim Report. 11
State Reporting and Oversight Requirements Establish Budget Standards 14
District Warning Signs that Can Trigger Budget Disapproval 15
Budgets Can Link Finance Decisions to Performance and Priorities 17
Districts Track Budget Items Using the Standardized Account Code Structure (SACS) 18
Illustration #4: Sample Program Summary, Certificated Salaries 19
Illustration #5: Sample Adopted Budget 20
Illustration #6: Sample Elementary Schools Budget. 22

The budget calendar for 2005–06: From start to finish

Every school district is simultaneously operating its current-year budget, evaluating its budget from the previous year, and developing its plans for the upcoming year. The following is a typical calendar for the development of a single year's budget.

Fall 2004

Even as one school year starts, districts begin to discuss priorities, evaluate existing programs, and set parameters and goals to guide budget development for the next year.

January–April 2005

The district adopts its budget calendar and reviews its guidelines for budget development. Following the governor's Jan. 10 release of a proposed state budget, district staff members present a discussion of the likely impact on the district. They should build into this discussion the projected costs of new district initiatives and anticipated savings that can be realized from dropping or changing current programs. They should also include estimates of salary and benefit increases based on existing commitments and potential collective bargaining agreements. If this process indicates that staff layoffs may be necessary, preliminary notices must be given to all certificated staff members who might be affected (teachers, counselors, principals, etc.) by specific dates in March. This process needs to be done carefully given the complexity involved in determining staff seniority and the severe impact layoffs can have on staff morale. A preliminary budget document is typically developed during this time.

May 2005

The governor submits an official "May Revision" of his proposed state budget that will update projections for district revenues in the coming year. The district staff uses this information to evaluate the preliminary budget and make revisions. Meanwhile, state leaders begin finalizing the state budget.

June 2005

Final study sessions and mandatory public hearings precede the governing board's adoption of the budget. The deadline for adoption is July 1. The district then submits that budget to the county superintendent.

July–August 2005

The state budget is typically adopted and signed by the governor sometime in July. (The state constitution calls for the Legislature to adopt a state budget by June 15 and the governor to sign it within 12 days, but it is usually later—in some years as late as September.) Once the state budget is signed, a district has 45 days to amend its adopted budget. During this time, the district also closes its books from the previous year. The state's official adoption of funding levels for education and the district's confirmation of its prior-year revenues, expenditures, and ending balance are essential in order to finalize the budget. By Aug. 15 the district receives the review and comments on the adopted budget by the superintendent of the local county office of education.

October 2005–June 2006

State law requires that twice during this period the district staff prepare, the board review, and the county superintendent receive interim reports that update the district's revenues and expenditures and project them through the balance of the school

year. The First Interim Report, due Dec. 15 to the county office of education, covers the period through Oct. 31, 2005. The Second Interim Report, due March 15, covers actual revenues and expenditures through January 2006. With each interim report, the school district board states whether the district's fiscal condition is positive, qualified, or negative (will, may not, or will not be solvent over the next three years), and the county superintendent officially certifies that. These two interim reports represent minimum legal requirements. A Third Interim Report, due June 1, may be required. The district board can also call for additional budget reviews or reports at its discretion.

July–December 2006

Once the district's books are closed, the final balances are reported to the state in October 2006 as part of its annual reporting of unaudited actuals. Concurrently, the district must retain an independent auditor who will review the year-end financial statements and deliver the annual audit report on or before Dec. 15.

Glossary of Terms

Actuals The amount a district actually spent in a given period as opposed to original budget estimates.

Bond Interest and Redemption Fund An account maintained on a local education agency's behalf by the county auditor and used for repayment of bonds.

Cafeteria Fund A separate fund used by many districts to track the income and expenses related to food service.

Debt Service Expenditures made to pay both principal and interest on borrowed funds, including bonds.

Direct Support Costs Services necessary to maintain instructional programs, including curriculum development, library, pupil support, transportation, and maintenance. Most support costs not initially identified with a program may be accumulated and then transferred at a later date as a direct support cost.

District Governing Board The official name for the local school board.

General Fund The primary, legally-defined fund used by the state and school districts to differentiate general revenues and expenditures from those placed in other funds for specific uses.

Indirect Costs Agencywide general administrative costs, including fiscal, personnel/human, and data process services. Indirect costs benefit multiple objectives and cannot be readily identified with a particular final cost objective.

Joint Powers Agreement (JPA) An agreement among local education agencies (and sometimes the California Department of Education) to share services or responsibilities. A joint powers board made up of representatives of the local education agencies governs the JPA.

Object Codes For revenues, the object code identifies the general source and type of funds. For expenditures, it identifies the type of item or service being purchased. District line-item budget reports usually reflect fund and object-level information.

Other Outgo Includes outlays for debt service, transfers between funds within a district, and transfers to other agencies.

Position Control A function that coordinates and authorizes positions in accordance with established district policies and procedures. This function is useful for budget development and the preparation of salary projections within a district.

Restricted/Unrestricted In the General Fund budget, the designation of a revenue or expenditure as being for specific (restricted) or general (unrestricted) purposes. Some revenue limit sources may be posted as restricted and some categorical program sources (such as K–3 Class Size Reduction) may be posted as unrestricted.

Special Education Local Plan Area (SELPA) Regional group for purposes of administering Special Education services effectively and efficiently. Districts are organized in SELPAs. Some are countywide, a single large district, or part of a district; and some combine several smaller districts.

Title I Provides funds for educationally disadvantaged students and is the largest of several federal programs included in the federal No Child Left Behind Act (NCLB).

TRANs (Tax Revenue Anticipation Notes) Short-term loans that school districts can use to address a cash flow problem created when expenditures must be incurred before tax revenues are received.

District budgeting operates within a set framework

In California, the state and all school districts operate on a fiscal year that begins July 1. The budget process, however, is virtually continuous. In any given year, it begins in the fall of the preceding year with forecasts of revenues, expenditures, and student enrollments. A preliminary budget is adopted prior to July 1 but generally continues to be adjusted. During the school year, the district confirms its financial status both officially and unofficially. After the books for that year are closed, the process ends with an audit certifying the accuracy of the district records. The calendar on pages 2–3 provides a basic timeline.

A district's elected school board holds final responsibility for adopting the budget, and that budget must be balanced—i.e., allow the district to meet its current and future financial obligations. The board's role in fiscal accountability goes beyond a simple vote, however. The board also sets policies that help guide both the budget development and financial management of the district. It is responsible for supporting and monitoring the implementation of the budget as carried out by the superintendent and district staff. And it sets the expectations for how the district's financial status and expenditure decisions will be communicated to board members and to the public.

A few basic realities create the framework within which district financial management and reporting operate in California. They include:

- the concept of fund accounting,
- the critical role that the number of students plays,
- the process by which districts receive their revenues, and
- the recognition that personnel costs dominate district expenditure decisions.

The fund accounting system—looking at the whole picture

California school districts use a system called "fund accounting." All revenues and expenditures are placed in one of several funds. The one that is used to record most of a district's day-to-day operations is the General Fund, which all districts are required to have.

Most of the district's financial transactions flow through the General Fund. The largest part of the money is for general purposes and is categorized as unrestricted. Some of the revenues that go into the General Fund, however, are restricted to specific uses, usually in compliance with state or federal regulations. This includes most special purpose or categorical programs. There are dozens of these programs, such as Special Education, transportation, instructional materials, and Title I of the federal No Child Left Behind Act (NCLB) that supports disadvantaged students.

General accounting guidelines require that districts place certain revenues into governmental funds that are separate from the General Fund. Most often, these revenues are to be used for purposes other than providing K–12 instruction. In addition, districts have the option of setting up other funds outside the General Fund. These fall into the following general categories:

- **Special Revenue Funds,** such as Adult Education, Cafeteria, Child Development, Deferred Maintenance, and Charter Schools.
- **Capital Project Funds,** such as the Building Fund, Capital Facilities, and State School Building Lease-purchase.
- **Debt Service Funds,** such as Tax Override, Debt Service, and Bond Interest and Redemption Fund.
- **Permanent Funds,** such as Foundation Permanent Funds (endowments in which the main balance is preserved but which produce ongoing income the district uses).

A district can also create Special Reserve Funds that allow the school board to set money aside for various reasons, including anticipated expenses such as benefits for retired employees. The district retains the right to transfer that money—at will—back to the fund or funds it came from.

Some districts also establish separate proprietary and fiduciary funds. Proprietary funds track enterprise activities for which the district charges a fee to external users. For example, a district could provide professional development services to teachers outside the district and charge for that. Fiduciary funds are assets the district holds on behalf of others, such as pension funds for employees. These cannot be used to support district programs.

Each fund is self-balancing and has its own financial statement with a beginning balance, list of revenues and expenditures, and ending balance. The balances for all funds are shown on a district's financial report. A district can temporarily borrow from one fund to supplement another. However, it generally must repay such loans by the end of the same fiscal year. (If the loan is made within 120 days of the end of the

fiscal year, it does not have to be repaid until the following year.) In general, the California School Accounting Manual recommends that a district transfer funds as little as possible in order to simplify financial recordkeeping and reporting.

Projecting the number of students comes first

The primary focus of budget development each year is related to General Fund revenues. They represent the bulk of the operating money for K–12 instruction, the central purpose of every district.

In California, a school district has little control over most of its revenue sources. Instead, its income is affected by state-determined funding formulas and the mandatory programs in which it must participate. Officials can also choose to operate optional programs—such as K–3 Class Size Reduction—for which the state provides a set level of funding.

The number of students who attend school is critical to district revenues because most of this funding is provided on a per-pupil basis, adjusted for actual attendance. The budget process thus begins with a careful projection of the number of students. However, the student count is not just a matter of how many children enroll each year. For most funding purposes, districts receive income based on the number who actually attend class, referred to as the average daily attendance (ADA).

The state uses a school district's ADA through April each year to determine its total general purpose (revenue limit) funding. Some special purpose (categorical) funding is based on ADA as well.

Accurate projections of ADA are pivotal to the development of a sound budget. First, a district must estimate how many children will register for school. Most districts use several data sources to arrive at this estimate, including census information, birth rate data by zip code, questionnaires sent home with current students, and sometimes the services of demographers. Then the district needs to look at past years to see what the relationship typically is between its enrollment and its ADA. When districts estimate badly, it is often because of unexpected events like a sudden economic downturn or perhaps the demolition of a large apartment complex.

Changes in a district's ADA can have a significant impact on its revenues. To protect districts from unanticipated reductions, the funding is based on either their current or prior year ADA, whichever is greater. A district with ongoing declining enrollment will continue to receive less money each year regardless of its ability to reduce expenses. Some analysts estimate that while districts lose a full unit of ADA funding for each fewer student, they typically save less than 70% of that amount in terms of reduced costs. Conversely, the incremental cost of each additional student is about 70% of the additional revenues a district receives. Thus, in general, a district with a growing population benefits financially. (One exception can be "basic aid" districts. See the box on page 6.)

The state largely determines revenue levels

Each district has a revenue limit—the per-pupil amount it receives for general purposes—that makes up most of its General Fund revenues. Revenue limit income is a combination of local property taxes and state funds.

How ADA is calculated

A district's ADA is calculated by dividing the total number of days of student attendance by the total number of days in the regular school year. A student attending every day would equal one unit of ADA. The number of pupils enrolled in the school is usually larger than the ADA due to factors such as students moving, dropping out, or staying home because of illness.

The state calculates the revenue limit amount separately for each district based both on its historical funding level and a set of adjustments that changes a bit each year. In most years, that includes a cost-of-living adjustment (COLA). Districts have no control over their revenue limit amount. In simple terms, a district multiplies its revenue limit by its projected ADA to determine its total general purpose funding.

In providing this funding for each district, the state first applies the local property taxes designated by law for that district. The difference between those taxes and the amount due is covered with state funds. If the local property taxes exceed the amount due, the district falls into "basic aid" status. (See the

box below for a further explanation of basic aid.)

The rest of the General Fund income comes primarily from restricted categorical (special purpose) support. This includes state programs like Economic Impact Aid and Professional Development, federal categorical programs like Title I, and programs like Special Education that receive both state and federal funds. A district's special purpose income depends on the programs for which it qualifies. Some are based on student characteristics, others on providing specific programs, and a few on the district's size or location. For the most part, the California Department of Education handles the apportionment of both state and federal categorical program funds.

The Legislature and governor, through the annual state budget process, set the amount by which revenue limits will increase (or, in rare instances, be reduced). They may make changes in statute that affect the formula used to calculate them. In addition, they can adjust the amount and allocation process for the numerous categorical programs as well as add or eliminate programs.

Districts also receive General Fund revenue from the state lottery, which has historically provided less than 2% of funds for schools. All districts receive the same per-pupil amount from the lottery. Most of it is unrestricted, but a small portion must be used for instructional materials.

A final group of revenue sources is labeled "local miscellaneous income." Parcel taxes, rental income, interest on investments, and charitable contributions all fall into this category. In some districts such sources represent substantial amounts, while in others they are almost nonexistent. Districts choose whether to pursue these types of revenues, including asking local voters to pass a parcel tax. They can also be aggressive in their management of assets in order to increase district income. Examples include maximizing interest income on district accounts (including bond proceeds) and generating extra revenues through the sale or lease of any surplus district properties.

Expense estimates begin with staff costs

Typically about 85% of a district's General Fund is spent for staff salaries and benefits—of which teacher compensation is about two-thirds—making it crucial that districts project staffing costs accurately. Three things affect those costs: the number of employees needed, the salaries they will receive, and the cost of employee benefits.

Generally, districts allocate teachers—and to some degree other staff—based on negotiated class sizes or other ratios of staff to students. Thus, a district's first step in determining staffing levels is getting an accurate count of how many students will attend school. Once that has been done, officials calculate how many teachers and other staff it will take to educate those students. This calculation depends on the class sizes in the district and the preparation time for which teachers are paid. Both of these are negotiated as part of the collective bargaining agreement between the district and the teachers' union.

"Basic aid" school districts face some different challenges

In a limited number of school districts–fewer than 80 in most years–revenues from local property taxes exceed the total revenue limit income due to a district based on the state formula. These districts are allowed to keep all of their property taxes but do not receive per-pupil general purpose funding from the state. They are called "basic aid" or "excess revenue" school districts and, for them, the process of projecting revenues is somewhat different.

Many of these districts are very sure of their status as a basic aid district from one year to the next. In that case, their revenue projections depend on a solid analysis of the potential property tax revenues in a community, with particular attention to possible changes. An influx of students in a basic aid district does not trigger additional funding. The financial impact of enrollment increases and decreases is more nuanced and less straightforward in these districts.

A few districts go from year to year unsure of their basic aid status. They wait until almost the end of the year to see whether their total local property tax collections will exceed the product of their state-set per-pupil amount times their ADA. The California Department of Education certifies which districts are basic aid at the time of districts' second principal apportionment, which occurs in June at the end of the school and fiscal year. For these districts, predicting revenues and the impact of additional students is far from straightforward.

District participation in special programs usually requires extra staffing, which often includes teachers on special assignment. Some districts use set formulas to adjust administrative and service staff (e.g., vice principals, counselors) based on site-level student counts. Every district also employs a number of classified staff—such as secretaries, janitors, groundskeepers, cafeteria workers, and teachers' aides—who help to keep the operation going.

Conservative estimates of student population and revenues will lead to conservative staffing commitments. If the projection proves to be low, it may cause a sudden rush to hire at the start of a school year and perhaps necessitate moving children around after the year begins. At the same time, being conservative will protect the district from overstaffing, which can have a disastrous financial impact. While districts can add staff after the school year begins, state law substantially limits their ability to dismiss permanent teaching staff—even if they overestimated how many students they would have.

Illustration #1

Major General Fund Revenue and Expenditure Categories

District budgets use standardized object codes to classify their General Fund revenues and expenditures. The following represent the main categories into which both are placed.

REVENUES

Revenue Limit Sources (8010–8099): includes base revenue limits, plus other funds such as Equalization, Summer School, Prior Year Adjustments, etc.

Federal Revenues (8100–8299): includes all money received for the No Child Left Behind Act (Title I, Title II, etc.) plus Special Education and other federal programs.

Other State Revenues (8300–8599): includes lottery and state categoricals (e.g., K–3 Class Size Reduction, Gifted and Talented Education (GATE), Economic Impact Aid).

Local Revenues (8600–8799): includes interest, donations and reimbursements, parcel taxes, rents and leases, and other local sources.

EXPENDITURES

Certificated Salaries (1000–1999): includes teachers, certified pupil support, certified supervisors and administrators, etc.

Classified Salaries (2000–2999): includes instructional assistants, athletics staff, clerical and office, maintenance staff, classified supervisors and administrators, etc.

Employee Benefits (3000–3999): includes Health and Welfare, Worker's Compensation, and other employee benefits.

Books and Supplies (4000–4999): includes approved textbooks and core curricula material, books and other reference materials, materials and supplies, etc.

Services and Other Operating Expenses (5000–5999): includes travel and conferences, dues and memberships, housekeeping services, rentals, leases, and repairs.

Capital Outlay (6000–6599): most commonly refers to site improvements, equipment, and equipment replacement.

Other Outgo (7100–7299): includes TRANs, payments to districts, and payments to county offices.

Direct Support/Indirect Costs (7400–7499): used to record transfers of direct support and indirect costs within or between funds.

A district's first budgetary responsibility is to be fiscally sound

District officials must ensure that the district is able to meet its financial commitments each year. Thus, they must temper the desire to innovate and invest in new priorities—or provide raises to employees—with a clear-sighted evaluation of the district's current and anticipated fiscal condition. Certainly this requires that the adopted budget be fiscally sound. Beyond that, it demands that district officials, most notably the school board, also monitor district revenues and expenditures throughout the year to ensure fiscal solvency.

Districts are required by law to report their financial status to the public and to county office of education officials periodically in budget, interim, and year-end financial reports. Each of these can help identify emerging problems and avert a financial crisis.

Looking at an overview is the critical first step

Each fund has its own line-item budget that provides an important overview of revenue sources and expenditure decisions. A look at the line-item budget for the General Fund in particular reveals a lot about the fiscal health of a district.

Examining the difference between total revenues and total expenditures may show whether a district is operating with a deficit in any given year. A comparison of fund balances from year to year can do the same. Transfers from other funds to the General Fund may indicate that the district is balancing its ongoing budget by borrowing from other funds. Transfers into those same funds may mean that General Fund revenues are subsidizing other operations, such as facilities or a cafeteria program.

The line-item budget also provides a quick assessment of what proportion of the district's revenues are unrestricted (available for general purposes) and restricted (must be used for specified purposes). Expenditures are divided the same way. While these designations conform to state policy, they can also reflect local board decisions to restrict specific revenues or expenditures not required by the state.

In the General Fund, the classification "Designated for Economic Uncertainties" is sometimes referred to as "the reserve." This is money set aside for major unforeseen expenses or revenue shortfalls.

The state requires districts to maintain a reserve of between 2% and 5% of their General Fund expenditures (after deducting Transfers Out and Other Sources/Uses). The percentage depends on the size of the district. The smallest districts (those with fewer than 300 students) must keep a 5% reserve, and the largest (those with more than 30,000 students) are required to keep 2%. Los Angeles Unified School District, the only district in the state with more than 400,000 students, must keep a reserve of 1%.

In difficult budget years—such as 2002 to 2004—it is much more challenging for even the most conscientious districts to make ends meet. Recognizing that, the state has occasionally relaxed for a limited time some of its expectations in regard to both fund transfers and reserves.

Interim reports help ensure solvency during the course of the year

Inevitably the estimates used to create the original budget will change somewhat as the year progresses. There are too many unknowns at the time of budget adoption to expect anything else.

Sometimes, however, unanticipated events create budget problems that are more extreme. For example, in 2002 and 2003, midyear cuts in the state's education appropriations left districts with less revenue than they expected. A shortfall between the district's estimated and actual student attendance can also result in significant losses in revenue. On the expenditure side, the cost of a new program may dramatically exceed estimates and a retroactive midyear settlement of employee contracts can unexpectedly increase personnel costs.

Even the most skillfully prepared budget is just a snapshot in time, and it is imperative that the assumptions upon which it was based are reviewed regularly. Districts are required to certify their financial condition twice during the school year, for the periods ending Oct. 31 and Jan. 31. They do this by filing interim reports in a format specified by the state. The school board must approve the October information by Dec. 15 and the January information by March 15. If a district receives a qualified or negative certification on its Second Interim Report, it must file a third by June 1.

These reports compare the ongoing financial conditions to what was projected in the district's original budget. Through this review of anticipated versus actual revenues and

Illustration #2: Sample School District

2005–06 Combined General Fund

The budget shows how much the district expects to receive and spend for general purposes and for categorical programs.

	2004–05 Estimated Actual			2005–06 Budget		
Categories	**Unrestricted**	**Restricted**	**Combined**	**Unrestricted**	**Restricted**	**Combined**
Revenues						
Revenue Limit Sources	12,655,584	184,203	12,839,787	13,324,221	194,184	13,518,405
Federal	0	237,097	237,097	0	321,049	321,049
Other State	1,460,249	1,954,901	3,415,150	1,320,775	2,398,067	3,718,842
Local	1,273,460	160,454	1,433,914	540,000	18,329	558,329
Total Revenues	**15,389,293**	**2,536,655**	**17,925,948**	**15,184,996**	**2,931,629**	**18,116,625**
Expenditures						
Certificated Salaries	8,464,623	1,292,345	9,756,968	8,659,378	1,245,717	9,905,095
Classified Salaries	1,877,446	417,000	2,294,446	1,882,116	453,069	2,335,185
Employee Benefits	2,051,617	310,877	2,362,494	2,078,292	311,879	2,390,171
Books & Supplies	394,109	210,620	604,729	614,776	1,124,528	1,739,304
Contracted Services	1,286,686	414,809	1,701,495	1,346,046	326,915	1,672,961
Capital Outlay	288,952	80,776	369,758	341,643	251,350	592,993
Other Outgo	59,115	92,528	151,643	95,751	119,254	215,005
Direct Support/ Indirect Costs						
Total Expenditures	**14,422,578**	**2,818,955**	**17,241,533**	**15,018,002**	**3,832,712**	**18,850,714**
Revenues Less Expenditures	**966,715**	**(282,300)**	**684,415**	**166,994**	**(901,083)**	**(734,089)**
Other Sources/Uses	**861,094**	**(314,885)**	**546,209**	**850,093**	**(491,391)**	**358,702**
Net Increase/Decrease	**105,621**	**32,585**	**138,206**	**(693,099)**	**(409,692)**	**(1,092,791)**
BEGINNING BALANCE	**1,724,929**	**377,107**	**2,102,036**	**1,830,550**	**409,692**	**2,240,242**
Net Change	**105,621**	**32,585**	**138,206**	**(683,099)**	**(409,692)**	**(1,092,791)**
ENDING BALANCE	**1,830,550**	**409,692**	**2,240,242**	[illegible]	[illegible]	**1,147,451**

Beginning balance includes reserves.

Difference between total revenues and expenditures shows this district is operating with a deficit (at a loss).

A comparison of fund balances from year to year can also show the deficit.

expenditures, districts certify whether they will be able to meet their obligations.

The school board is responsible for monitoring the interim reports to ensure that the district remains on a solid financial footing throughout the year. These interim reports include updates on staffing and student attendance, year-to-date accounting, and projections of future expenses. They can also shed light on potential cash flow problems.

Once the school year has begun, reducing expenses can be quite difficult because so much of the budget is devoted to personnel. State law makes it nearly impossible for a district to reduce permanent certificated staff midyear. Districts have more flexibility in regard to classified staff but still must provide them with a 30-day notice prior to any layoffs. Thus when a district discovers at the time of its interim report that it is facing a budget deficit, its options are limited.

If the problem is a question of cash flow in the short term—with expenditures needing to be made before funds become available—districts can issue short-term tax revenue anticipation notes (TRANs). They may also borrow temporarily from other funds, such as the building fund or a special reserve. If the problem is a more serious structural imbalance between revenues and expenditures, districts with healthy reserves often depend on them to get through the year—a short-term fix.

Collective bargaining agreements are central to spending decisions

With so much of a district's expenditures tied up in personnel, collective bargaining agreements can have a dramatic impact on a district's budget, both in current and future years. Contract provisions have both obvious and subtle effects on a district's ability to align its expenditures with its priorities. An increase in salary and benefits is just one facet of that.

Another significant factor is a district's salary schedule. Most districts determine the salary level for their teachers and the majority of other employees based on a schedule that includes "steps" for years of service in the district and "columns" for the amount of education or training employees receive. Staff seniority usually has the greatest influence on average salaries and thus on the percentage of the budget that is spent for personnel. In general, the base salary of most senior teachers is about twice as much as new teachers.

The structure of the salary schedule and the amount of any salary increase has predictable multiyear cost implications. The district needs to consider the long view in negotiations and budget development.

Another significant cost is employee benefits including paid vacations and holidays, sick leave, health care, life insurance, and retirement plans. The state requires some of these, such as retirement and workers' compensation. Virtually every district in the state pays for additional employee benefits, but they vary substantially in the amount they spend, the manner in which they structure them, and the extent to which they expect employees to share the cost. All of these things must be negotiated. Controlling the cost of benefits can be crucial for a district's financial health. Many districts use a benefits cap for this purpose, agreeing in the employee contract to pay a set maximum per employee.

The contract provision with the next greatest financial impact is ar-

Illustration #3: Sample School District

2005–06 First Interim Report

General Fund Summary: Revenues, Expenditures, and Changes in Fund Balance

Description	Object Codes	Adopted Budget (A)	Latest Board Approved Operating Budget (B)	Actuals To Date (C)	Projected Year Totals (Latest Working Budget) (D)	Difference (Col. B & D) (E)
A. REVENUES						
1) Revenue Limit Sources	8010-8099	93,379,997	93,379,997			-
2) Federal Revenues	8100-8299	8,786,960	9,603,508			(53,910)
3) Other State Revenues	8300-8599	17,580,535	18,492,646	2,335,819	18,490,496	(2,150)
4) Other Local Revenues	8600-8799	8,684,155	9,326,590	1,715,994	9,334,295	7,705
5) TOTAL REVENUES		**128,431,647**	**130,802,741**	**23,935,767**	**130,754,386**	**(48,355)**
B. EXPENDITURES						
1) Certificated Salaries	1000-1999	69,783,368	69,612,783	11,821,477	69,612,783	
2) Classified Salaries	2000-2999	16,832,264	16,914,130	5,535,014	16,914,130	
3) Employee Benefits	3000-3999	23,982,828	23,738,350	4,272,615	23,999,341	260,991
4) Books and Supplies	4000-4999	5,586,658	7,188,560	1,208,687	7,190,429	1,869
5) Services, Other Operating Expenses	5000-5999	11,522,095	12,539,321	2,149,263	12,543,007	3,68
6) Capital Outlay	6000-6599	519,939	1,040,566	463,648	986,656	(53,910
7) Other Outgo (excluding Direct Support/Indirect Costs)	7100-7299	3,482,985	3,466,877	817,921	3,466,877	-
8) Direct Support/Indirect Costs	7400-7499	(376,201)	(376,200)	97,946	(376,200)	-
9) TOTAL EXPENDITURES	**7300-7399**	**131,333,936**	**134,124,387**	**26,366,571**	**134,337,023**	**212,636**
C. EXCESS (DEFICIENCY OF REVENUES OVER EXPENDITURES BEFORE OTHER FINANCING SOURCES AND USES (A5-B9)		(2,902,289)	(3,321,646)	(2,430,804)	(3,582,637)	(260,991)
D. OTHER FINANCING SOURCES/ USES						
D4) TOTAL, OTHER FINANCING SOURCES/USES		(450,723)	(450,723)	767,997	(450,723)	-
E. NET INCREASE (DECREASE) IN FUND BALANCE (C+D4)		(3,353,012)	(3,772,369)	(1,662,807)	(4,033,360)	(260,991)
F. FUND BALANCE, RESERVES						
F1e) Net Beginning Balance		11,221,007	13,152,673		13,152,673	
F2) Ending Balance, June 30 (E + F1e)		7,867,995	9,380,304		9,119,313	(260,991)

Some variation from the original budget is to be expected.

A minor reduction in anticipated revenues

Higher costs for employee benefits

The anticipated budget deficit increases by about 8%.

A strong beginning balance for the next fiscal year keeps this district solvent.

guably class size because it relates so directly to how many teachers the district must employ. Other things such as retiree benefits, hours of employment, preparation periods, leave policies, safety measures, and the timing of pay adjustments can also have a substantial impact on a district's bottom line.

While union negotiations are almost always done in private, union proposals and district responses, the salary schedule, and the collective bargaining agreement are public documents. Further, with the passage of a new state law in 2004, the district superintendent and chief business official are now required to certify in writing that the costs incurred by the district under a proposed collective bargaining agreement can be met during the term of the agreement. It is critical to a district's long-term fiscal health that the multiyear impact of any collective bargaining agreement be analyzed before it is officially adopted.

Under state law, employee contracts must be renegotiated at least every three years, but there is often an agreement that salary and benefits will be negotiated annually. Some districts, however, commit to multiyear salary agreements.

Assessing a district's financial condition goes beyond the General Fund

A number of expenses accounted for outside of "regular K–12 education" can affect the district's financial solvency. The most obvious is facilities. For example, when the heating system gives out, a district has to fix it. Absent funds set aside for such a need, the money will come out of the General Fund. Several other financial obligations can also affect a district's ongoing revenues or expenditures in unexpected ways.

Special Education requires local funds

Special Education, which provides extra services for students with disabilities, is the largest categorical program in California in terms of dollars. In the district's General Fund, Special Education revenues and expenditures are accounted for in the restricted category. However, the law requires that the allocation of those revenues and many of the expenditure decisions occur outside of the local school board's budget authority.

The state provides the bulk of Special Education funding as a rate per unit of ADA (based on the total number of students in the district). The funds are then targeted to those students identified as eligible for Special Education. However, the funds do not go directly to the district but to a Special Education Local Plan Area (SELPA). The governing boards of the SELPA's member districts and agencies approve a plan for its governance, and their superintendents make sure the plan is implemented. It is up to the SELPA to allocate the funding based on formulas that the member agencies have formally approved. These formulas vary from one SELPA to another.

The law requires that Special Education services be provided regardless of which agency pays for them. Both the state and the federal government provide substantial funding, but not enough to cover the entire cost of the required services. All California school districts are expected to contribute a portion of their unrestricted General Fund money to provide services to their Special Education students. While the amount the state and federal governments will contribute is set at the beginning of each school year, the full cost of services can be quite unpredictable as it is driven by student needs. Further, the cost per student varies. And in some SELPAs, the formula may treat all districts uniformly even though their obligations vary. For these reasons, it is not unusual for a district's General Fund contribution to Special Education to exceed its estimates. The resulting encroachment on a district's operating budget can become a source of serious concern for district officials, particularly because it is not within the district's direct control.

Joint powers agreements provide management options

A SELPA is one example of a joint powers agreement (JPA). Districts participate together in JPAs in order to provide specialized services more effectively and efficiently than they can on their own. This can be for instructional purposes, such as occupational education programs; support services, such as transportation; or central administrative services, such as accounting. Some districts have used a JPA for the purpose of negotiating and managing employee benefits and other insurance purchases in order to keep costs down.

The state has set clear guidelines for tracking JPA expenditures and revenues so that they remain separate from district finances. This also ensures that they are not counted twice in the statewide financial totals the California Department of Education (CDE) collects and reports.

Upcoming requirements for reporting retiree benefits could affect budgets

More than half of the districts in California offer their retirees some health insurance benefits. New accounting rules issued by the Governmental Accounting Standards Board (GASB) in June 2004 will soon require districts to show these

and other similar post-employment benefits as liabilities on their financial statements. The new requirements under GASB 45, as the new law is commonly called, will be phased in. The largest districts must comply first. Beginning with the 2007–08 school year, districts that had revenues of more than $100 million in 2000 will be the first to have to meet the new rules.

In the past, many districts only reported the annual cost of retiree benefits in their financial statements. Under the new rules, districts will still have to recognize those annual costs as current expenses in their budgets and will also have to recognize future obligations as liabilities in their projections for future years. They will have some flexibility on how they calculate the projected cost based on assumptions about risk and life expectancy, but they will have to report the number of retirees and active employees eligible for the services.

School Services of California, a school-management consulting firm, reports that some districts were shocked at the magnitude of their future obligations when they were accounted for in this way. Districts may have to renegotiate some of these benefits for retirees with their unions or face negative consequences because of these accrued obligations.

Charter school finance is still evolving

Charter schools represent relatively new entities in the school finance system. In some instances a charter functions like a school within a district, but at other times it may act more like a separate agency. The rules have evolved as these dual identities have become more clearly defined, but the funding process continues to change.

Most charter schools receive their funding as a uniform, set amount per pupil. One allocation is for general purposes and another is a "categorical block grant" that represents aggregate funding for more than 40 categorical programs school districts can receive. All of these funds are discretionary and are distributed to charter schools based on their ADA. The amounts vary depending on the age of the school's students, with the state providing more money as students get older.

Some specific financial issues—often the result of state regulations—challenge relations between districts and charter schools. For example, in unified districts the revenue limit amount is the same for all students. However, districts pass funding on to their charter schools based on the charter school grade-level apportionments. Thus, an elementary charter is entitled to less per pupil than the district receives from the state, while a charter high school is entitled to substantially more.

State law also specifies a month-by-month allocation process for charter schools that is not fully synchronized with when districts receive funding. This is especially true with property tax revenues because districts do not receive their property taxes until December each year. This type of inconsistency creates cash flow problems in some districts. Resolving district versus charter obligations for Special Education students and facilities can also be difficult.

Financial relationships are generally negotiated as part of the chartering process, but disputes are still common. Districts are precluded from considering fiscal impact in deciding whether to approve a charter.

State reporting and oversight requirements establish budget standards

County superintendents can choose one of three financial certifications

When reviewing interim reports, the superintendent of the local county office of education issues one of three certifications in regard to an LEA's ability to meet its financial obligations for the current fiscal year and the next two years:

Positive = the LEA *will* meet its obligations.

Qualified = the LEA *may not* be able to meet its obligations.

Negative = the LEA *will be unable* to meet its obligations.

There is tremendous variation in the size, location, and student diversity in California's 985 school districts and 58 county offices. While their budgets differ accordingly, all of them must meet common state requirements, such as budget deadlines, balanced budgets, and the responsibility to invite public comment. In addition, districts are required to submit specific reports to the county superintendent and to commission a financial audit each year.

California has standardized many school district accounting and reporting forms in an effort to further increase accountability for the use of public funds. One strong motivation was to create an early warning system to help avert a financial crisis, such as bankruptcy and/or the need for an emergency loan from the state. Most of these apply to every local education agency (LEA). LEAs include county offices of education, school districts, joint powers agencies, and charter schools that receive their funding directly from the state.

In 1991 Assembly Bill (AB) 1200 created a formal process of review and oversight that furthered these goals. The process requires the county superintendent to approve the budget and monitor the financial status of each school district and JPA in its jurisdiction. County offices of education today perform a similar function in regard to many charter schools. The CDE, in turn, reviews the finances of county offices.

In 2004 lawmakers strengthened these fiscal accountability provisions with the passage of AB 2756. The new law calls for the state to update the standards and criteria used for the fiscal oversight of LEAs. These new standards take effect in 2006–07. The law also made immediate changes in the process county offices use to review district budgets and interim reports.

The county superintendent reviews district finances several times annually

Each year, local LEAs submit to the county superintendent at least five finance-related documents for review that are then submitted to the state superintendent of public instruction. They include the district's preliminary budget passed by July 1, the first and second interim reports, an unaudited financial report at the end of the budget year, and the district's annual audit a few months later. (County offices submit their own budgets and reports directly to the state superintendent for a similar review.)

The process begins with the budget adopted in July. Based on its review, the county superintendent approves a district's (or charter school's) budget, approves it conditionally, or disapproves it. Districts with approved budgets proceed with the implementation of their programs as planned.

A conditional approval became an option with the passage of AB 2756 in 2004. In this case, the county superintendent submits to the district governing board written recommendations for revising the budget, which may include specific budget adjustments. The county superintendent can also appoint a fiscal adviser and/or convene a committee to review those recommendations. The governing board of the district must submit a revised budget to the county office after holding a public hearing. The county at that point must either approve or disapprove the budget. If the county finds that the

budget revisions were not sufficient or appropriate, it can use that as the basis for a qualified or negative certification at the time of the first interim report in December, even if the revised budget is ultimately approved.

In the case of a budget disapproval, the county superintendent must call for the formation of a budget review committee (BRC). With approval of the CDE, the county and district can agree to waive this requirement. If the BRC is waived or if both the BRC and the state superintendent disapprove the budget, the county superintendent must, in consultation with the state superintendent and the district governing board, develop and adopt a budget and fiscal plan for the district. The county superintendent may also stay or rescind any action that is inconsistent with the adopted budget.

If a district does not submit a budget to the county superintendent, the county superintendent is to develop a budget for that district by Sept. 15 at district expense. The state superintendent is required to report to the Legislature and the state director of finance if any district does not have an adopted budget by Nov. 30.

The next official review occurs with the LEA's First Interim Report. The county superintendent issues a positive, qualified, or negative certification based on this review. (See the box on page 14.) The same process and reporting accompanies the Second Interim Report. When a district receives a qualified or negative certification, it loses some of its financial autonomy. Its collective bargaining agreements are subject to county office scrutiny prior to board approval, and it is prohibited from incurring specific nonvoter-approved financial obligations (such as TRANs). It will also have additional reporting obligations, including a Third Interim Report due June 1.

District warning signs that can trigger budget disapproval

AB 2756, passed in 2004, requires the use of 15 predictors developed by the Fiscal Crisis and Management Assistance Team (FCMAT) as one basis for evaluating a district's adopted budget. If an external reviewer has found more than three of the following in evidence, the county superintendent must withhold budget approval unless the district can provide adequate assurances that it is able to meet its financial obligations. The official list of 15 predictors is as follows:

1. Governance crisis
2. Absence of communication to educational community
3. Lack of interagency cooperation
4. Failure to recognize year-to-year trends
5. Flawed average daily attendance (ADA) projections
6. Failure to maintain reserves
7. Insufficient consideration of long-term bargaining agreement effects
8. Flawed multiyear projections
9. Inaccurate revenue and expenditure estimates
10. Poor cash flow analysis and reconciliation
11. Bargaining agreements beyond state cost-of-living adjustment (COLA)
12. No integration of position control with payroll
13. Limited access to timely personnel, payroll, and budget control data and reports
14. Escalating General Fund encroachment
15. Lack of regular monitoring of categorical programs

These items are part of a comprehensive list: "FCMAT Predictors of School Agencies Needing Intervention." In its role as a financial adviser, FCMAT has found these to be the most common school agency problems. The full list and further explanation is available at: **www.fcmat.org**

FCMAT helps with planning, managing

Districts with financial problems often receive help from the Fiscal Crisis and Management Assistance Team (FCMAT). This state-funded organization is overseen by an advisory board made up of county office and school district superintendents, plus an administrator from the CDE. Legislators (AB 1200) created FCMAT in order to provide assistance to districts with financial problems or other management needs. FCMAT is establishing regional teams of experts that can be used as budget advisers when needed as part of the new review requirements. It also provides training for school business officials.

Particularly during difficult economic times, some school districts have only avoided financial insolvency by receiving emergency financial support from the state. When the state provides such a loan, FCMAT has a more official role. It conducts an assessment of major operational areas in a district and then develops an improvement plan, providing progress reports to both local and state authorities. The state also appoints an administrator who, at a minimum, has veto power over district actions. When the amount of the loan exceeds a set threshold, the state appointed administrator takes control of the district. The board then loses its decision-making power, and the district superintendent must be dismissed.

The audit provides a final check of district financial procedures

By law, every school district must hire an independent auditor who reviews its financial records once the books are closed for a given school year. Each district must submit its audit report to the county office of education, the CDE, and the state controller.

The audit is an after-the-fact look at how the district operated. It tells the governing board and the public about the integrity of the district's financial systems and practices. Formally presented at a public meeting, the report includes a management letter that highlights any concerns or problems the auditors found—including serious "audit exceptions"—plus recommendations for addressing them. Districts must then provide information on whether the findings have been addressed and the conditions corrected.

An audit is an advisory document intended to help a district improve its financial management. The absence of audit exceptions does not necessarily mean a district has no financial worries. Similarly, a long list of recommendations does not mean that district staff members are acting irresponsibly. The audit is intended to provide important information with which to help evaluate a district's operations and its future financial health, but it is just one of many tools for doing that evaluation.

County offices have long been expected to review district audits and report audit exceptions related to attendance, inventory of equipment, and internal controls. Beginning with the 2004–05 school year, they are now also required to inform the state superintendent of public instruction and the state controller's office if any audits include exceptions related to instructional materials, teacher misassignments, and school accountability report cards (SARCs).

Budgets can link finance decisions to performance and priorities

The budget documents and official financial reports that districts prepare for the county office and state follow prescribed governmental accounting conventions and state requirements. They must be accurate and thorough. But the format needed for consistent state reporting often differs from what the lay public—including school boards and many district officials—needs in order to understand the significance of the information.

While the official budget is important for understanding a district's overall fiscal condition, it leaves many of the most important day-to-day questions about district decision making unanswered. Districts can use the same data they compile for these official documents to create reports for their boards and the public that make school district finances clearer. These reports can illuminate a district's fiscal condition, provide important details related to specific schools and programs, look at change over time, and facilitate comparisons. In other words, they can describe how effectively the district is managing its resources to meet its priorities, address performance issues, and control its future. The state's account code structure helps make this possible.

Districts can align priorities and resources with performance goals

A budget document reveals a great deal about a district's priorities, even when those are not explicitly stated. Often such priorities become clear through a comparison with similar districts. Wage levels are a good example. A district's officials may believe that having a generous salary schedule will ensure that the district has high quality teachers. They may decide it is worth having larger classes in order to accomplish that goal. Comparing both the salary levels and class sizes to those in other districts should highlight that decision. Another district may believe that having additional certificated staff work as coaches is more important than providing instructional aides for teachers. That district may have a higher share of its expenditures in certificated salaries and a lower share in classified salaries.

Some district policies are spelled out in budget documents. For example, a district may choose to allocate supplies to school sites based on enrollments, programs, or some other formula. It may distribute counseling services based on student characteristics rather than just the number of students. Each strategy is likely to give some schools an advantage and others a disadvantage. Such trade-offs can be evaluated against the district's goals for student performance. "Equal" services at a school with students who are already behind might be counter to a district commitment to narrow the achievement gap. On the other hand, reducing the services or enrichment programs available to high-performing students may not make sense if the district's highest priority is to improve college admissions.

New ideas for improving education emerge constantly. Some are mandates from the state or federal government, some are initiatives that promise additional funds, and some are supported by staff or community but depend on existing district resources. Some are "experiments" in the truest sense of the word, and others are well proven. All, however, have some fiscal impact. A thorough financial analysis can help ensure that such initiatives get the resources necessary to be successful and that they do not inadvertently hurt other efforts.

Implementing new ideas can also mean abandoning old ones. Some experts suggest that districts directly link any expenditure increase for a new program to an expenditure decrease somewhere else. They also counsel against simply building on "what is" by using only new dollars for district priorities and assuming that all other expenses will remain the same.

SACS makes new analyses easier

The state's standardized account code structure (SACS) provides all California school districts with a uniform and comprehensive chart of accounts that they must use to categorize each revenue and expenditure. This system, which was first introduced in the 1990s, represented a major transition from previous accounting requirements.

As of the 2003–04 school year, all districts must report their financial information electronically using SACS. The uniform use of these codes is expected to dramatically improve the ability of school districts and the state to analyze school expenditures and extract more useful information for policymakers, educators, and the public. Districts vary in how skilled and how motivated they are to change their budget reporting and analysis practices to take advantage of these capabilities. (See the box on page 18 for a listing of these codes and their uses.)

Using the SACS categories, financial information can be displayed in a number of ways that connect revenues and expenditures to specific

district goals and activities. School and department level data can add to the sophistication of these budget analyses. SACS facilitates reports and comparisons that were previously extremely difficult or even impossible. However, districts have flexibility in the extent to which they use the system. They also vary in their interest in going beyond required reports and in their professional capacity to do so.

For example, districts use SACS to break out their expenditures into general categories of goals and functions. However, the system also facilitates the creation of more detailed categories based on the priorities and programs districts wish to examine more closely. For example, the state requires that a district track instruction expenditures

Districts track budget items using the standardized account code structure (SACS)

Category	Major subcategories	Explanation of use
Fund	• Governmental funds (including General Fund, Special Revenue, Capital Project, Debt Service, and Permanent funds) • Proprietary funds • Fiduciary funds	Each fund is a self-balancing set of accounts recording financial resources and liabilities. Revenues and expenditures are posted in the fund that will be used to administer them.
Resource	• Unrestricted resources • Unrestricted resources with special reporting requirements • Restricted resources (including restricted revenue limit, federal, state, and local resources)	This indicates whether the revenues come from general purpose funds or from a restricted source, such as a categorical program.
Goal (Program)	• Instructional (including regular K–12 education, adult, specialized services, supplemental education, Special Education, regional occupational center/program, and nonagency) • Other goals (e.g., community services and child care) • Undistributed	Expenditures are tracked by goal when applicable, which identifies the instructional setting or group of students receiving services. Expenditures that cannot be directly assigned to a goal are coded to Goal 0000, Undistributed.
Function (Activity)	• Instruction • Instruction-related services (e.g., supervision, library, school administration) • Pupil services (e.g., counseling, health services, transportation) • Ancillary services (e.g., athletics) • Community services • Enterprise (services provided for a fee) • General administration • Plant services (e.g., maintenance, rents) • Other outgo (e.g., debt service)	Functions track the general operational area and group together related activities. Many functions, such as instruction, serve a variety of goals.
Object	• Revenues, including revenue limit sources, federal revenue, other state revenues (e.g., categorical programs, state lottery), and other local revenue • Expenditures, including certificated salaries, classified salaries, employee benefits, books and supplies, capital outlay, and other outgo	For revenues, the object code identifies the general source and type of funds. For expenditures, it identifies the type of item or service being purchased. District line-item budget reports usually reflect fund and object-level information.
School	• The district may assign a code for each school.	Districts must provide the capacity to include this field in their accounts, but state reporting at the school level is currently optional.

Illustration #4: Sample School District

2005–06 Program Summary, Certificated Salaries

Description	Adopted 2005–06	Actuals 2004–05
POSITIONS		
K–5 Teachers	191.80	194.90
6–8 Teachers	69.60	71.60
ESL Teachers	4.00	4.00
Teacher On Spec Assignments	1.40	1.40
Sub Teacher Sick Leave	0.00	1.00
Certificated Salaries	266.80	272.90
EXPENDITURES		
Teachers Salaries	640	
K–5 Teachers	9,230,329	9,071,026
Science Teachers		550
Phys Ed Teachers		800
6–8 Teachers	3,605,642	3,694,492
Other Teacher Salaries	50	93,347
ESL Teachers	201,936	343,437
Teacher On Spec Assignment	83,059	136,556
Administrator Spec Assignment		120
Substitute Teacher–Vacant Positions		180,465
Substitute Teacher Sick Leave	456,391	355,366
Sub Teachers Curriculum Development	3,000	47,136
Subsitute Teachers–Jury Duty	2,810	5,796
Substitute Teachers–Negotiations		520
Substitute Teachers–Other	90	12,591
Substitute Teachers–Industrial	2,675	1,730
Teachers–Others		40,957
Certificated Salaries	**13,586,622**	**13,984,888**

Salary data are based on actuals, not averages. Does this big decrease in costs indicate an influx of newly credentialed ESL teachers?

Using SACS, a district can examine staffing assignments and costs in detail.

(other than Special Education) using the 1000 function code. However, local districts can use codes 1001–1099 to create their own instruction categories that might be by grade level, subject, or some other variable they want to be able to analyze.

When districts use these data in conjunction with traditional object codes—and with department or site-level information—they can perform quite detailed analyses. Some districts look at the differences in total support they are providing to elementary, middle, and high schools. Some examine how particular categorical funds—such as Instructional Materials or Economic Impact Aid—are distributed. A few use SACS as the foundation for data systems sophisticated enough to analyze all their expendi-

Illustration #5: Sample School District

2005–06 Adopted Budget
General Fund Expenditures by School and Program

Removed from this display are the expenditures for the other eight schools in the district.

Districtwide programs are accounted for separately.

Using object code categories ties this report to the overall district budget.

Subtotals for personnel costs include benefits.

	FTES 2005–06	ABC School	Special Education	Student Transportation	Direct Instruction Support	District General Support	Routine Repair & Maintenance	2005–06 Working Budget	2004–05 2nd Interim Budget
Site Enrollment		749							
Certified Salaries	229	1,870,226	1,628,444	0	1,901,883	285,094	0	**16,203,377**	16,423,129
Classified Salaries	99	278,835	536,519	232,434	291,967	1,249,021	202,922	**4,265,860**	4,258,751
Employee Benefits		691,333	683,649	114,862	276,303	868,030	81,778	**6,048,670**	5,452,052
Total Salary and Benefit Expense	**328**	**2,840,394**	**2,848,612**	**347,296**	**2,470,153**	**2,402,145**	**284,700**	**26,517,907**	**26,133,932**
Books & Supplies		[illegible]	16,745	24,333	336,857	161,607	39,500	**1,051,481**	2,020,938
Contract, Services and Other		[illegible]	908,413	446,706	437,686	938,529	87,400	**3,886,633**	4,264,560
Capital Outlay and Equipment		[illegible]						**10,000**	141,884
Other Outgo		[illegible]	0	0	100,512	(94,244)	0	**14,331**	38,093
Total Expenditures		**3,061,507**	**3,773,770**	**818,335**	**3,345,208**	**3,408,037**	**411,600**	**31,480,352**	**32,599,407**
Interfund Transfers to Other Funds									
To Cafeteria Fund						25,000		**25,000**	57,306
To Deferred Maintenance Fund						157,402		**157,402**	130,000
Total Expenditures		**3,061,507**	**3,773,770**	**818,335**	**3,345,208**	**3,590,439**	**411,600**	**31,662,754**	**32,186,713**

A comparison over time shows budget cuts.

tures in a general category, such as the professional development of teachers or district office support services. These reports make it possible to examine the amount of categorical funding, detail how the funds are used, and describe the full investment a district is making, including any encroachment on unrestricted funds.

SACS also makes it possible to look at the manner in which a particular type of service is being distributed. For example, a report about student support services, such as counselors and school psychologists, could illuminate which schools are receiving the largest share of these services. Tracking these expenditures over time might show how the district's investments have changed. Correlating those changes with behavior records, test scores, and other measures could show a relationship between the level of support services and student performance.

The development and analysis of detailed financial reports can help a district more readily estimate the total cost of its various activities and programs. This can then be compared to what the district has decided is most important—whether that is improving reading instruction in the early grades, addressing the achievement gap with English learners, or improving the percentage of students completing college preparatory courses. Is the level of funding consistent with district priorities? What other, lower-priority efforts might the district be able to reduce or eliminate in order to make more resources available? What would an expansion of a current high-priority program really cost?

Site-level budgeting and reporting can provide valuable insights

While the state requires districts to have a place for site-level information in their financial data under the SACS system, it does not require them to compile or report expenditures by individual school. Many experts, however, believe that school-level data is an essential part of a complete budget report because it provides information about expenditures at the point where they most directly affect students—at the school site.

The audiences for school-level budget information can be quite diverse. New parents may most appreciate a straightforward visual presentation that provides basic summary information. Staff will likely be interested in the level of district resources the school receives based on student needs and in comparison to other schools. District officials, including the school board, benefit from the most robust and nuanced information, including comparisons. They also need to be able to provide clear data to the media and to those staff—and community and parent advocates—interested in broad districtwide issues of accountability, equity, and funding adequacy.

School budget reports come in many shapes and sizes

When they are available, school-level budgets take many different forms. The most comprehensive ones report the cost of every district resource that goes to the school, including the actual salaries and benefits of all staff; the value of shared resources, such as district office business and maintenance services; and site-level discretionary budgets, such as Title I funds, grants, and supplies.

Some districts only provide school budgets that report on the expenditures over which the site has discretion. Others will summarize the amount of discretionary funds and perhaps compare what various schools receive, but they will not describe how the sites spent the money. In many districts, the reports combine financial information with student demographics to help put categorical funding for specific populations—such as Special Education and Title I—into perspective. In a few districts, reports also include performance information.

Concerns about equity among schools may prompt more robust reporting

Both the state and federal governments have begun holding districts and schools accountable for improving student performance. Critical to meeting this expectation is their ability to narrow the achievement gap by focusing on the academic improvement of the lowest-performing students. Students from low-income families and those who need to learn English are statistically more likely to be in this group. Districts have data that show the concentration of these students in each school.

Helping these students achieve more will require that they receive additional services targeted to their educational needs. It would follow that schools serving high concentrations of disadvantaged students will need to receive the personnel and materials necessary to provide those services if student performance is to improve.

However, public education has come under increasing fire for not providing even basic resources at some of the schools that serve the most disadvantaged students. In California, a lawsuit charging that this was the state's responsibility was

Illustration #6: Sample School District

2005–06 Elementary Schools Budget

Enrollment		School X		School Y		School Z
Regular Education		368		379		307
Special Education Day Class		21				12
English Proficiency		145		102		27
Total Enrollment		**534**		**481**		**346**
School Budget	**FTE**	**BUDGET**	**FTE**	**BUDGET**	**FTE**	**BUDGET**
Teachers						
Regular Education	23.40	1,253,749	22.40	1,200,170	14.80	792,969
Other	3.00	160,737	1.00	53,579	2.00	107,158
Subs/ Temps		27,734		24,101		17,450
Librarians						
Counselors/Guidance						
Principals/Vice Principals	1.00	85,826	1.00	85,826	1.00	85,826
Clerical	1.38	43,763	1.50	48,808	1.44	45,357
Instructional Aides	2.63	67,597	0.63	15,731	2.13	54,922
Other Classified						
Campus/Noon Duty Monitors	0.75	6,723	0.56	5,043	0.75	6,762
Operations, Other	2.00	58,657	2.00	56,924	2.00	58,455
Employee Benefits		492,990		422,910		343,174
Instructional Materials/Supplies		27,400		19,072		10,800
Services/ Other Operating Expenses		60,080		51,634		43,681
Capital Outlay		3,000				
Subtotal Expenditures		**2,288,256**		**1,983,798**		**1,566,554**
Weighted Student Formula		**2,226,426**		**1,847,990**		**1,541,163**
Estimated Additional Enrollment	**21.00**	**(61,830)**	**46.00**	**(135,808)**	**9.00**	**(25,391)**
Other Resources						
Title I		197,955		124,248		102,768
State Compensatory Education						
School Improvement Program		45,623		41,327		28,353
Bilingual		39,778		23,704		7,629
Total Budget & Resources		**2,571,612**		**2,173,077**		**1,705,304**

Enrollment and number of personnel help describe each school.

Salary allocations are based on district averages.

Allocations from categorical funds

settled out of court in 2004. The settlement calls for additional oversight of school districts to ensure that the state's lowest-performing schools have safe facilities, qualified teachers, and sufficient textbooks.

Site-level budgets may be a critical component in districts' ability to prove that they are meeting these new state expectations. At a broader level, they are the only way districts can evaluate how equitably they are distributing resources and either prove that schools are being treated fairly or make changes to ensure that they are.

But some district accounting practices can obscure rather than illuminate these concerns. For example, rather than providing actual salary data, many districts prepare school budgets that give costs based on multiplying the number of teachers and other staff by the average salaries in the district. Some financial experts question this practice, particularly as it relates to teachers. Counting every teacher as an equal resource can mask substantial differences in the total staffing cost at different schools, which would be an indicator of teacher experience and qualifications. For greater clarity about teacher qualifications, some reformers advocate showing the amount of funding allocated to schools based on actual salaries rather than averages.

The importance of site-level discretion is a matter of opinion

Some observers believe that school site leaders need more control over expenditures so that they can better address the specific needs of their students and thus improve school performance. Others say that district, state, and federal policymakers have an obligation to ensure that all schools operate at an optimum level and should control the distribution of resources to better achieve that goal.

In California and throughout the country, new accountability systems make individual schools responsible for their success in improving student performance. Yet for the most part, school districts decide how much control schools have over the resources they receive.

Schools that participate in selected state and federal programs control at least a portion of their budget. In return for that, they must complete a planning process called the "Single Plan for Student Achievement." Its stated purpose is to improve the academic performance of all pupils, as measured by the state's standardized tests. This planning process has taken the place of earlier approaches to site-level improvement planning in California, most notably the model previously required by the state's School Improvement Program.

The Single Plan is to be developed by a school site council made up of the principal, staff, parents, and community members (with representatives of the latter two groups selected by their peers). It addresses how the particular categorical funds will be used, but it does not necessarily look at the entire budget for a school. The district is expected to not only pass the funds through to the school, but also to review and approve the plans.

Trend reports confirm and improve the validity of budget assumptions

The budget development process leans heavily on assumptions about a district's students, revenues, and expenses. Examining trend reports can help improve the validity of these assumptions. By looking over district budgets for several years, it is possible to identify patterns and past errors in

prediction. Is ADA consistently underestimated or overestimated? Has the district regularly projected less for utilities than it has spent? Are expenditures for health care benefits growing at a faster rate than anticipated?

A sense of a district's financial history—combined with an informed look at the future—can also help make the opportunities for flexibility and new programs clearer. For example, a district may see substantial changes in its staffing needs and categorical income as its student population gets older. On one hand, fewer students will be in subsidized small classes. On the other hand, more will be in high schools, which are traditionally more expensive to operate. How might that demographic change affect the district's revenues and its expenditures? Will it require a realignment of priorities that could have far-reaching effects?

Financial forecasting—essential to building and managing school district budgets—is increasingly required by the state as well. Collecting data and developing assumptions are both important steps in being able to make financial projections. Using computerized accounting systems and SACS data, district staff can develop "what if" scenarios that attach costs to such proposals as program changes and salary increases. This can help district officials weigh their options with a clearer picture of the fiscal impacts.

Getting beyond the complexities promotes better use of information

California's school finance system is undeniably complicated. The challenge of just complying with state regulations for financial accounting and reporting is substantial. Yet such compliance is just the first step in budgeting.

Districts that are committed to improving student performance use financial information to facilitate their objectives. They make sure that they are funding the programs and priorities they believe are most important. They tie their expenditures to student and school information about demographics and performance in order to evaluate their "return on investment." And they produce budget documents that illuminate their choices and their challenges, thus building public understanding and support.

Such sophisticated budget reporting may challenge the abilities of district office staff in some school districts. In others, it may reveal problems with the status quo that could cause dissension among staff, community members, or the school board. Ultimately, however, it can be instrumental in ensuring that public schools fulfill their responsibilities to students and taxpayers.

Free software helps make user-friendly budgets easier to develop

Part of making any budget document helpful to the general public is to also provide background information that puts the information into context. For example, an explanation of a program's function and objectives should accompany a program budget. Easy-to-read charts and graphs are also important.

Free budget software available to all California school districts provides examples of effective district, program, and school site budgets, templates for producing these types of reports, and suggested text for many of the reports, including programs common to most districts.

User-Friendly Budgets is available free from School Services of California through a grant from the Fiscal Crisis and Management Assistance Team (FCMAT) and the Girard Foundation. The CD-ROM includes both software templates and a wide variety of samples from districts throughout the state that have used the templates to present budget information.

Information about getting this software is available at: **www.sscal.com/ufb.htm**

To Learn More

These resources can supplement the information in district budgets and help school board members and the public develop a more sophisticated approach to budget evaluation and analysis.

- The Education Data Partnership website at **www.ed-data.k12.ca.us** provides fiscal data for every district back to 1992–93. It also makes possible "apples to apples" comparisons of district financial statistics, student demographics, teacher salaries, and student performance.
- The Annenberg Institute's School Communities That Work project at **www.schoolcommunities.org** provides tools that districts can use to examine their school-level allocations more systematically.
- The Fiscal Crisis and Management Assistance Team (FCMAT) at **www.fcmat.org** has a wealth of resources to help districts with their financial management.
- School board members in districts affiliated with the California School Boards Association (CSBA) can attend Masters in Governance workshops that include a comprehensive session on school finance. Information is available at: **www.csba.org**
- EdSource offers a large number of full-length reports and shorter publications on school finance, accountability and assessment, and other key education issues. In addition, we maintain a robust website with data, background information, and news on California education policy: **www.edsource.org**

4151 Middlefield Rd., Suite 100
Palo Alto, CA 94303-4743
Phone: 650/857-9604 Fax: 650/857-9618
E-mail: edsource@edsource.org
www.edsource.org

EdSource® Clarifying Complex Education Issues™

The School District Budget Process

BUDGETS PROVIDE A DESCRIPTION of a school district's program plans for the upcoming year. They include an estimate of the money a district will receive (revenues) and the district's plan for spending those funds (expenditures). The state government in California largely controls school district revenues. Each year, the Legislature and governor decide how much funding will go to public education and how those funds will be allocated. Decisions about how the funds are spent largely rest with local school districts, which face a number of constraints as they decide on their priorities.

Where does the operating money for local public schools come from?

In California, the state provides about 61% of the operating funding for schools from its General Fund. Local property taxes contribute less than 21%, and federal funds provide 11%. Proceeds from the lottery generally add up to less than 2% of the total. School districts have one other source of funds, commonly referred to as "local miscellaneous revenues." These can come from a variety of sources, such as lease income, donations, food service sales, and parcel taxes. Statewide, these average about 6% of revenues, but that varies dramatically from district to district. (School districts may also receive additional monies, often from local bonds, that are earmarked for facilities.)

Most of the funds that school districts receive are for them to use at their discretion. These are called general purpose funds. About one-third of district revenues are intended by the state or federal government for specified purposes and programs. These are called categorical funds. In 2006–07 California has more than 80 separate categorical programs, such as teacher professional development and Special Education programs for students with disabilities.

Who decides how education funds are spent in local school districts?

Within specific parameters, each district makes its own choices about how to spend the funds it receives. The local school board is responsible for approving the district budget and the expenditure decisions made by district staff.

Although districts control the salaries and benefits they pay employees, districts almost always determine the amounts through a collective bargaining process with employee unions. Union contracts can also affect a number of other district expenditures related to working conditions, such as class sizes and number of workdays.

Districts decide which voluntary state and federal programs they will operate for students, including everything from K–3 Class Size Reduction to summer school. But if they choose not to participate, they lose the funding for that program. They are also required by law to put resources into some programs, such as Special Education and school lunches.

Districts choose how much to invest in the construction, maintenance, and upgrading of their facilities. However, state law controls what buildings may be used as classrooms, requires including features such as accessibility for the disabled, and specifies that some maintenance services must be performed by school district employees. In addition, state law prohibits districts from using money raised through local bonds for anything but the facilities promised as part of the bond measure.

What are the major budget pressures facing school districts?

Local school districts have very few opportunities to raise additional funds, no matter what their needs. The state decides how much revenue they have to work with each school year. State leaders do not finalize that decision until they pass the state budget, an action that is legally required by the end of June but which has in some years been delayed to as late as September. Further, the state provides its support for schools through income and sales tax revenues that can change dramatically from year to year.

When the state faces a difficult or uncertain budget, school districts must prepare for the worst and hope for the best. They have to adopt their preliminary budgets by June 30, regardless of state action or inaction. They are also required by law to provide notice by March 15 to most employees, particularly teachers, if layoffs are a possibility. Yet they may not know the exact amount of revenue they will be able to spend until months later. This is why teachers sometimes receive layoff notices (or "pink slips") but ultimately keep their jobs.

The bulk of school district expenditures go to employee salaries and benefits—more than 80% in most districts. A

© Copyright 2006 by EdSource, Inc.

district's response to budget cuts or even flat funding almost always includes eliminating personnel.

For about half the school districts in the state, a major concern is shrinking enrollments. Because a large portion of education funding is based on the number of students attending school in a district, revenues decrease along with a decline in the number of students. However, the overall costs of a school do not go down with the loss of a few students. For example, a district typically has to lose 20 or 30 students before it cuts one teaching position. Thus districts with declining enrollments often face a budget squeeze that is particularly challenging, though the state provides them with some additional funding to cushion the impact.

How does collective bargaining affect district spending decisions?

Some of the most important district spending decisions are made at the bargaining table between the district governing board and employee unions. Granting a raise in a given year, or for multiple years, is just one of many issues negotiated.

Collective bargaining also determines what kinds of automatic raises teachers and other employees will receive for experience and continuing their education. These increases for individuals are in addition to any cost-of-living increase. Bargaining with teacher and other employee unions also decides working conditions, such as maximum class sizes, teacher preparation time, the number of days school is open, and more. Each of these decisions directly affects the district's budget.

How can I find out more?

- For further explanations of California's school finance system and updates on current budget action, go to: **www. californiaschoolfinance.org** or **www.edsource.org**
- School Services of California, Inc., has free software available to help school district officials prepare "User Friendly Budget Displays." It is available at: **www.sscal.com/ufb_soft.htm**
- For district-level financial statements, including comparisons to state averages and other districts, go the District pages of the Ed-Data Partnership website: **www.ed-data.k12.ca.us**

How can I make sense of school budget information?

Every parent, educator, businessperson, and resident has the right to examine most school district financial records. These are public documents. However, school districts are allowed to charge for extra costs incurred in providing records, including data collection and copying.

School district budget documents can be complicated and difficult to understand. Many school districts work hard to clarify their budgets for the public. They are likely to report expenditures down to the school level and go out of their way to explain the meaning behind the numbers. Other districts may not clearly explain their financial documents. A variety of resources are available to help districts do this job well and to explain the school finance system to their various constituents.

What can the public do to affect local school budget decisions?

Various opportunities exist for public input. In order to effectively influence issues they care about, parents and community members need to understand which spending decisions are made at the school level and which the district controls. Further, being aware of how—and when—such decisions are made helps ensure that public input is both appropriate and timely.

For example, most schools have a School Site Council that influences some expenditure decisions. Many school districts have Budget Advisory Committees that consider district-level decisions. School principals and district administrators typically seek comments from these groups and manage the process of collecting both public and staff input as they develop budgets. The school board makes the final decision at a public meeting based on the recommendations of the district administration.

Actual collective bargaining is almost always done in closed meetings between the district and the union. However, school districts are required to make public ("sunshine") both union and district proposals before bargaining begins and ask for public input. At the end of the process, districts must explain the contract they have agreed to and again provide an opportunity for public comment.

Reprints permitted with credit to EdSource. For a Spanish version, go to: ***www.edsource.org/pub_spa.cfm***

EdSource® Clarifying Complex Education Issues™

EdSource® is a not-for-profit 501(c)(3) organization established in California in 1977.

Independent and impartial, EdSource strives to advance the common good by developing and widely distributing trustworthy, useful information that clarifies complex K–12 education issues and promotes thoughtful decisions about California's public school system.

© Copyright 2006 by EdSource, Inc.

520 San Antonio Rd, Suite 200, Mountain View, CA 94040-1217 • 650/917-9481 • Fax: 650/917-9482 • edsource@edsource.org
www.edsource.org • www.californiaschoolfinance.org • www.ed-data.k12.ca.us

EdSource® Clarifying Complex Education Issues®
REPORT
APRIL 2007

Keeping California School Districts Fiscally Healthy

Current Practices and Ongoing Challenges

A summary of a research study by EdSource and School Services of California prepared for the 2007 *Getting Down to Facts* research project

PUBLIC SCHOOL DISTRICTS IN California are responsible for providing a free education to more than 6 million kindergarten through 12th-grade students. The news media and the public pay careful attention to how the public school system is performing its primary task of educating students. Studies that rank California students' performance on national tests and the state's announcements regarding test scores and school performance receive broad coverage.

The performance of a school district as a business enterprise, however, rarely garners much attention except when there is a crisis. Districts forced to seek emergency financial assistance from the state draw the attention of the press and policymakers. A teachers' strike becomes the focus of the community's interest as does a proposal to close a local school. Yet, the day-to-day financial management of school districts seldom receives serious scrutiny.

In California, just maintaining a solid financial operation can be challenging for a variety of reasons, including the complexity of the school funding system and the general lack of control that school districts have over their revenues, particularly since the passage of the Proposition 13 tax-cutting initiative in 1978.

California's nearly 1,000 school districts vary in their ability to maintain strong fiscal health within this environment. They also differ in the qualifications and stability of the personnel responsible for their financial management, the nature of their governance and leadership, and their financial management practices.

This report looks at the financial management of California school districts and its relationship to strong fiscal health based primarily on the findings of a 2006 research study conducted by EdSource and School Services of California. After a brief overview of the conditions under which school districts generally operate in California, this report looks at the extent to which districts are fiscally healthy based on a measure developed as part of the study. It examines how conditions outside a district's control relate to fiscal health and the complexities involved in developing strategies to help struggling districts. This report also looks at how districts vary in the qualifications and stability of the responsible personnel, the nature of their governance and leadership, and their management practices. It considers fiscal best practices, including which practices show a relationship to district financial health. Finally, it looks to the future, including a discussion of ways to improve the fiscal health of the state's school districts.

California school districts face fiscal realities and constraints

School districts are the fiscal agents responsible for the management of the schools under their purview. The variation in their size and configuration leads to differences in the challenges school district leaders face in managing them financially. That said, all districts in California operate within a larger context that includes state control of revenues, the dynamics inherent in being a public agency, and operating characteristics that are unique to public education.

© Copyright 2007 by EdSource, Inc.

EdSource® is a not-for-profit 501(c)(3) organization established in California in 1977.

Independent and impartial, EdSource strives to advance the common good by developing and widely distributing trustworthy, useful information that clarifies complex K–12 education issues and promotes thoughtful decisions about California's public school system.

This report summarizes a research study by EdSource and School Services of California

In November 2006, EdSource and School Services of California, Inc., completed a study entitled *School District Financial Management: Personnel, Policies, and Practices* as part of the *Getting Down to Facts* research project overseen by Stanford University and released in March 2007. This EdSource publication summarizes the study findings.

While the official findings were the work of School Services and EdSource, EdSource takes full responsibility for the content of this summary and for any errors or misinterpretations it may contain.

Research Team:

EdSource: Prime Contractor
Mary Perry, *deputy director and study project director*
Isabel Oregón, *research associate*
Trish Williams, *executive director*

School Services of California: Subcontractor
Robert Miyashiro, *associate vice president*
Jannelle Kubinec, *associate vice president*
Laurel Groff, *research/fiscal analyst*
Philip Wong, *director, Information Systems*
Ron Bennett, *president and CEO*

Stanford University:
Susanna Loeb, *Ph.D., senior technical consultant to the project, director of the Institute for Research on Education Policy & Practice (IREPP) at Stanford University and project director for the* Getting Down to Facts *studies*

Acknowledgements:

Although EdSource is responsible for the content of this publication, the research study itself was a group effort between EdSource and School Services of California, Inc., with Professor Susanna Loeb of Stanford University providing oversight, active interest, sound advice, and analytical work. The quality of the study was also significantly enhanced by Joel Montero, chief executive officer of the Fiscal Crisis & Management Assistance Team (FCMAT), who provided input throughout the study design and analysis process.

In addition, EdSource wishes to thank the superintendents and chief business officers (CBOs) from 135 school districts who completed a long and detailed survey, and their support staff who assisted in that effort. Their enthusiasm for the project made our job easy.

Finally, we thank the ***William and Flora Hewlett Foundation,*** *the* ***James Irvine Foundation,*** *the* ***Bill & Melinda Gates Foundation,*** *and the* ***Stuart Foundation*** *for underwriting the expenses to conduct this important school finance research project; and the* ***Fiscal Crisis & Management Assistance Team (FCMAT)*** *for the supplemental support that enabled EdSource to prepare and distribute this summary publication throughout California.*

A state-controlled school revenue system limits options for districts

In California, the school revenue system is state-controlled, with districts having limited options for increasing the funds they receive. They can maximize attendance and claim funding for programs for which the district or school is eligible. They can also enhance local funding through foundations, parcel taxes, and other sources. But in the end, the vast majority of a district's revenues are generated by the number of students multiplied by their base revenue limit for general (unrestricted) purposes. Their eligibility for categorical (special-purpose) funds depends on a variety of additional factors, but many such funds are allocated on a per-pupil basis.

For most California school districts then, the number of students is a driving force in financial planning. But it is a number that can be somewhat unpredictable and over which districts have little control. Further, while enrollment propels district costs, such as staffing and materials, revenues are largely driven by the yearly average of students who attend. Average daily attendance (ADA) usually is lower than enrollment due to factors such as students moving, dropping out, or staying home due to illness. Thus, accurate budgeting and sound financial management depend, in an important way, on the ability of district leadership to estimate not only how many students will sign up for school, but also what their average attendance will be.

CBOs report that they maximize revenues where they can

When chief businesss officers (CBOs) were asked in the EdSource/School Services survey to what extent they felt their district was successful at maximizing revenues where possible, they generally reported success at maximizing public funds, including unrestricted state funds and, to a lesser

© Copyright 2007 by EdSource, Inc.

extent, categorical state and federal funds. They were split, however, regarding their success at maximizing interest income and securing extra revenues from private sources. And few CBOs report success at maximizing revenues from property (such as lease income) or services for which they could charge a fee.

School district management requires good business practices, but it is not like managing a business

Although some critics say school districts should just manage their finances more like businesses, experts point to numerous contrasts between school district financial management and business management. A 2005 report by Stacy Childress out of the Public Education Leadership Project at Harvard Business School states that the differences between businesses and school districts are greater than the similarities. The report cites examples, such as the way districts acquire capital, the requirement to serve all students regardless of their capabilities, and districts' accountability to a number of public and private stakeholders.

A number of additional requirements for school districts that are particular to California can be added to this more general comparison. These include the requirement to collectively bargain with employees should they choose to be represented, due process protections for employees that can make the cost of termination substantial and the process lengthy, and limitations on the ability to contract with outside vendors for services.

School districts often rely on common business practices

At the same time, many school districts adhere to common business practices that improve their efficiency and reduce their costs, such as strategic planning, competitive bidding, and best practices in the area of personnel management (hiring, evaluation, and progressive discipline). Districts can also approach their interactions and communications with families and communities constructively, treating them as the "clients" of the education business. Effective investment strategies can ensure that districts manage real property well and maximize earnings on cash balances and other investments. Districts also benefit from the use of effective management information systems. Some school districts gain important advantages by forming joint powers authorities (JPAs) for purposes of combining purchasing power, providing services, or sharing risk.

Financial decisions are a shared leadership responsibility

Another reality regarding school district financial management is that it is always shared among school district governing boards, superintendents, and CBOs. Generally, CBOs are responsible for developing and managing the technical details of the budget, monitoring fiscal activities, and advising the school board and superintendent on the district's fiscal health. But California law requires that the superintendent and the board review and ultimately approve the budget and other fiscal information submitted to local county offices of education (COEs) and/or the California Department of Education (CDE). When superintendents and boards sign financial reports, that means they agree with and support the information provided. For this reason not only CBOs but also superintendents and board members need to be knowledgeable about financial management laws and practices.

California does not currently have any official requirements for CBO certification. Districts are free to hire

Study Methods

The original study relied on data available from state and local sources, augmented with a survey completed in spring 2006 by 135 chief business officers in a stratified random sample of California school districts. A review of both legal requirements and professional standards for the financial management of school districts guided the survey's development.

To determine the fiscal health of districts, the study used data from California's system for identifying fiscally troubled districts, which was supplemented with data regarding patterns of deficit spending and financial reserve levels. This measurement tool was used to evaluate the short-term financial health of all districts in the state for the period from 2002–03 to 2004–05.

The study uses comparative statistics to test for relationships between the fiscal health of districts, the survey responses from the sample districts, and state data. Where appropriate, the study also applies regression analysis to examine relationships between the fiscal health of all California school districts and selected district characteristics. For some of the variables, a statistically significant difference (not likely the result of random variation) was found based on the fiscal health of the district, and those findings are noted throughout this report.

Inside This Report

The Study Uses a Robust Measure that more Accurately Captures District Fiscal Health 5

Districts' Fiscal Health Is Related to Factors Outside Their Control 7

Data on District Leadership Provide a Partial Picture 9

Financial Management Practices Are Somewhat Consistent with Professional Standards 10

What Are District CBOs Concerned About in the Future? 14

Financial Management Is a Complex Undertaking in California 15

© Copyright 2007 by EdSource, Inc.

"Basic aid" and small districts operate outside the "normal" finance system

"Basic aid" districts have property taxes that exceed their revenue limit

About 50 districts regularly generate property tax revenues that exceed their base revenue limit amount. These districts are termed "basic aid" districts. They are allowed to keep all the property taxes they collect but receive no other general-purpose funding from the state.

The budgeting process for basic aid districts is fundamentally different. Their general-purpose revenues are typically more predictable from year to year because they do not depend on student count and property taxes are a relatively stable revenue source. Although other districts have an incentive to maximize their average daily attendance (ADA) in order to receive additional funds, basic aid districts can benefit from a lower student count that leaves them with more funds per student.

Small districts often rely on their county offices of education

Of the state's 979 school districts, 396 qualify to be "direct service" districts based on size. These districts, by law, must have fewer than 901 elementary students, 301 high school students, or 1,501 unified (K–12) students. They can depend on their local county office of education (COE) for a variety of services, such as instructional supervision, attendance supervision, health services for pupils, and guidance services. For some of the smallest districts, this includes financial management, and the COE officially acts as the district's chief business officer. Data regarding the number of districts that receive financial services or give their fiscal duties to their COE are not readily available.

whomever they choose in this role, and the state does not regularly collect data regarding the education or experience of district CBOs. In other states, the certification requirements for CBOs vary. Fourteen states require some form of certification or licensure for CBOs, according to surveys conducted in spring 2003 by the Association of School Business Officials International (ASBO) with Purdue University. Another 14 states have voluntary certification, and 20 have neither type of program. (Two states did not respond to the survey.)

Compensation issues—determined through collective bargaining—are central to school district finances

An inescapable reality for every school district is that the bulk of expenditures are for personnel. That fact, combined with California state law regarding collective bargaining, means that district negotiations with employee unions are central to the district's ability to keep its expenditures in balance with its revenues.

Collective bargaining is mandatory for school districts in California, and the vast majority of them are totally unionized. A typical district will have *at least* two bargaining units, one for teachers and one for classified employees. Some districts also have bargaining units for a portion of their administrators, such as school principals.

The scope of bargaining is defined partly by state law and partly by local contract and past practice. State law specifies wages, benefits, representation, and working conditions as mandatory subjects of bargaining. The scope of bargaining often also includes class sizes, coaching stipends, paid planning time, compensation for after-school activities, number of teaching minutes, duty-free lunch periods, retiree benefits, employee transfer and reassignment policies, and processes for evaluation and termination of employees.

Public employees can strike

In California, public employee unions have the right to strike, and the district has the right to unilaterally impose its last, best, and final offer. But first the parties must comply with specified state processes, including a declaration of impasse, mediation, and fact-finding. In California, there is no binding end to negotiations short of a bargained agreement, and neither the school board nor the union is compelled to reach one.

After an agreement is reached, however, state law requires that the district superintendent and CBO personally certify that the district can afford the cost of the agreement for its duration. The COE then reviews the agreement and can advise the board of any concerns.

Compensation is determined locally but within state guidelines

California requires districts to place all teachers on a single salary schedule based on seniority and educational qualifications. But the specifics of the schedule are locally bargained. As a result, no two districts use exactly the same compensation scheme.

Compensation also includes days and hours of work as well as health and welfare benefits, with many districts offering free, or nearly free, health benefits while others cap their contribution. Statutory benefits are an automatic—and substantial—cost to school districts. For each employee, the district is required to contribute to specified public employee retirement programs and unemployment as well as Social Security/Medicare for some employees. These expenses cost more than 12% of salary.

Retiree health benefits are a concern

The issue of postretirement benefits, particularly health care, has gained visibility in recent years and is creating new challenges to districts' fiscal health. Most districts limit benefits to a maximum number of years or age. A small number of districts, however, offer benefits for life, often including a retiree's spouse and dependents. The cost of lifetime benefits is dramatically higher because, in general, a disproportionate share of health care costs occur during the final year of life.

© Copyright 2007 by EdSource, Inc.

This report relies on fiscal data during financially volatile years

This report relies on fiscal data from 2002-03 to 2004-05. During those years, the state's financial situation was particularly volatile, and the number of districts identified as having serious fiscal health problems increased.

In 2005-06 the new set of regulations based on Assembly Bill 2756 (see the box on page 6) went into effect, further increasing these oversight requirements. In addition, 2005-06 marked a turning point in a two-decade increase in student enrollment. Projections are that enrollment in California's K-12 schools will decline in 2006-07 and will continue to decrease by small numbers during the next decade.

Districts vary in their experiences, however, with about half experiencing declining enrollment, but about a third–generally in areas with lower housing costs–expecting growth to continue.

Districts that terminate the benefit or transition former employees to Medicare at age 65 avoid some of that cost.

If districts choose to offer postretirement benefits, they are not required to prefund any part of the benefit; and most districts do not. Thus, a district can grant a costly benefit to current employees and, in the future, have to balance that cost against a desire to augment educational programs or raise salaries.

In the past, districts were not required to include any acknowledgement of the liability for postretirement benefits in their financial statements. A footnote referencing the actuarial value of the unfunded benefit was sufficient to meet disclosure requirements. Then, in 2004, the federal Governmental Accounting Standards Board (GASB) issued statements 43 and 45, which require districts to record the unfunded liability in their financial statements beginning with the largest districts in 2006. But, unlike private corporations, districts still do not have to set aside funding to pay for the future benefit. They can continue to allow the liability to grow.

The district can also determine the nature of the benefit offered. In practice, most plans require coordination of benefits with Medicare (when eligible), but some do not. Many California school districts offer a zero benefit—and a few offer the most costly benefit—but most districts fall in the middle.

Once given, the postretirement health benefit is difficult to take away. Districts that have done so have typically established a two-tier system. Employees hired before a certain date have the benefit; those hired after that date do not.

Finally, the cost of health benefits has risen at a rate that is two to five times higher than revenue increases in school districts. This unfunded liability grows at a rate far in excess of the district budget. Over time, both the unfunded liability and the cost of "pay as you go" benefits have become larger percentages of district expenditures.

Good facilities management is key to fiscal health, but funding is separate

School buildings are integral to district operations, yet much of the financial management related to them is outside of district general fund budgets. In California, the capital investment in buildings, including both new construction and modernization, is primarily financed through a combination of local and state bond money. Except for cases of hardship or emergencies, districts are expected to match state bond proceeds with funds from local bonds and/or developer fees.

The ongoing maintenance of facilities, on the other hand, comes from district operating funds in ways that are partially mandated by state law. Districts are required, for example, to maintain a routine restricted maintenance fund that dedicates 3% of their general fund budget to this purpose. In addition, districts can receive state funds for deferred maintenance projects as long as they provide matching local funds. Custodial work is paid through the general fund.

School districts are also required to comply with the Civic Center Act and allow use of their facilities by the public. These arrangements are handled at the local level, and districts vary in the requests they get, the fees they charge, and the number of obstacles they sometimes place in the way of such use.

Additionally, school districts are free to engage in asset management programs and use excess property to generate additional revenue. This most commonly involves leasing vacant school sites. Some districts also sell some of their holdings to raise one-time money.

The study uses a robust measure that more accurately captures district fiscal health

One of the central questions in the EdSource/School Services study was the relationship between a district's fiscal health and various personnel characteristics, state and local policies, and district practices. A first challenge was to accurately categorize which districts are fiscally healthy, marginal, or unhealthy. A concern was that the state's current measures for identifying districts with poor fiscal health, described next, appear to underestimate the problem. EdSource and School Services developed a new measure of district fiscal health that more accurately captured district fiscal health during the three-year period examined in the study.

Assembly Bill 1200 created California's current fiscal warning system

In 1991 California lawmakers passed Assembly Bill (AB) 1200, which established standards for financial management and created a system of fiscal accountability and oversight for school districts. The standards are broad in scope, dealing with such things as required reporting, data formats, a

© Copyright 2007 by EdSource, Inc.

California leaders strengthened the fiscal oversight provisions in 2004

After several years of robust economic growth and increased funding for schools, the state's financial situation worsened after 2000, affecting school funding. During the next few years, a small number of districts did not have the financial reserves or systems in place to avoid disaster. After granting the two largest school district emergency loans in the history of the state and a couple of lesser loans, lawmakers passed Assembly Bill (AB) 2756 in 2004. This bill added more teeth to the oversight process that AB 1200 created in 1991. Lawmakers used a list of indicators developed by the state's Fiscal Crisis & Management Assistance Team (FCMAT) to strengthen the fiscal oversight function. In July 2005, the State Board of Education supplemented the list. (See: **http://wwwstatic.kern.org/gems/fcmat/predictors12805.pdf**)

standard account code structure, and purchasing and bidding procedures.

The AB 1200 certification process is a straightforward evaluation of district solvency based on financial documents required by the state and dependent on local officials' ability to accurately project enrollments, costs, and revenues over time. When districts submit their annual budgets and interim financial reports to the county superintendent, they certify their ability to meet their financial obligations for the current and subsequent two years. County office officials review these documents to validate the district's self-certification. A similar process occurs when the district finalizes a collective bargaining agreement with employees.

Based on this review, districts receive one of three financial certifications:

- **Positive**—based upon current projections that a district will be able to meet its financial obligations for the current and immediate two fiscal years.
- **Qualified**—based upon current projections that a district may not be able to meet its financial obligations for the current and immediate two fiscal years.
- **Negative**—based upon current projections that a district will not meet its financial obligations for the current or next fiscal year.

Of California's 58 county offices of education, 51 provide secondary fiscal oversight for the state's school districts. State law requires county superintendents to not only monitor the financial performance of school districts, but also intervene when a district is unable to meet its fiscal obligations. The California Department of Education (CDE) does the same for county offices. Additionally, school districts must retain independent certified public accountants to conduct annual audits as specified by the State Controller's Office. Further, the state's Fiscal Crisis & Management Assistance Team (FCMAT) provides both preventive services and recovery assistance to financially troubled districts.

Regarding financial reporting policies, the state also requires that all districts use a standardized account code structure for tracking revenues and expenditures, that they maintain a fund-accounting system that meets specific guidelines, and that they comply with state law regarding budget development, review, and submission. These rules are—in spirit, if not always in practice—consistent with the guidelines of GASB Statement 34, issued by the federal government in June 1999.

Outside California, some work has been done to create more robust systems to evaluate school district financial conditions. For example, the Financial Condition Indicator System developed in 2003 to assess New York school districts looked at districts' short-run financial solvency, long-run financial condition, conditions within the local economy surrounding districts, and student performance as a measure of service-level adequacy. These types of indicators are largely not available for California. The state's current approach fundamentally measures districts' short-run financial condition and solvency. In 2004 policymakers added some additional oversight provisions to the AB 1200 process. (See the box on this page.)

The state's current measures identify few districts of concern

Initially, this study attempted to use districts' AB 1200 status to categorize them as healthy, marginal, or unhealthy. Using this approach, healthy districts were those that received only positive certification from 2002–03 to 2004–05; marginal districts received one qualified certification; and unhealthy districts received a negative certification or two qualified certifications.

The vast majority of districts (88%) were in the healthy category by this measure, with 7% marginal and almost 5% unhealthy. These data make clear the relatively small number of districts that have been identified as having fiscal difficulties under the AB 1200 process.

However, recent experiences in California suggest that the current system under-identifies districts that may be facing fiscal health problems. In particular, it does not provide a clear distinction between districts that are healthy and those that are marginal (at risk for problems given current practice). Specific issues include:

- ***Management flaws compromise data.*** There are several examples of school districts that received a positive certification under AB 1200 one year and then required the drastic step of state loans the next year in order to meet their obligations. The fiscal crisis did not erupt in one year but went undetected for several years because of the lack of quality information about the true fiscal situation.
- ***There is limited ability to generate early warning.*** Under the current system,

© Copyright 2007 by EdSource, Inc.

there are ways to distinguish districts that will clearly be unable to meet their financial obligations in the current year. However, there is no systematic review used to monitor or identify risky financial practices—such as deficit spending or inaccurate revenue estimates—that can eventually lead to fiscal problems.

- ***Districts and county offices have difficulty evaluating the long-term effects of their decisions.*** State law calls for districts and county offices to certify that the district can meet its obligations for the current year as well as the subsequent two years. There is no objective standard for these projections, however, and they are particularly difficult to evaluate or monitor due partly to funding fluctuations in the state budget and, thus, in school funding.

A more robust approach shows more marginal and unhealthy districts

To compensate for these problems, the EdSource/School Services study created a multidimensional measure that would consider not only districts' AB 1200 status over a three-year period, but also their deficit-spending patterns and reserve levels. The assumption was that fiscally healthy districts are less likely to exhibit patterns of spending beyond their means and more likely to have reserves. Using this more robust measure, districts in the state as a whole, and in the sample, were categorized as fiscally healthy, marginal, and unhealthy. Statewide, more than half of school districts fit the healthy category, but almost three in 10 were in the marginal category. (See Figure 1.)

figure 1 | **Districts statewide and in the study are rated based on fiscal health**

	Districts Statewide		Districts in Study Sample	
	Number	Percent	Number	Percent
Not available	12	1%		
Healthy	520	53%	53	39%
Marginal	275	28%	46	34%
Unhealthy	176	18%	36	27%
Total	**983**	**100%**	**135**	**100%**

Note: The survey participants included an oversample of districts that had been identified as having fiscal problems. This was in order to make conclusions about unhealthy districts possible given the relatively small number of districts included in the survey.

Data: School District Financial Management (Perry/GDTF) 2007 — EdSource 4/07

figure 2 | **From 2002–03 to 2004–05, districts statewide with increasing enrollments were more likely to be healthy**

Enrollment change from 2002–03 to 2004–05	Percent of Districts		
	Healthy	Marginal	Unhealthy
Districts that Declined	49%	30%	21%
Districts that Increased	56%	28%	16%

Data: School District Financial Management (Perry/GDTF) 2007 — EdSource 4/07

Districts' fiscal health is related to factors outside their control

Numerous factors influence a school district's financial condition. Some are under the direct control of district management or can be significantly influenced by management decisions. Other factors are largely outside the sphere of influence of district management. The study showed that some of those factors were related to district fiscal health as previously defined.

The state provides extensive data regarding school district enrollments and revenues, two factors over which California districts have limited control. Districts in California also generally fit three types of configurations: unified (grades K–12), high school (9–12), and elementary (K–8).

For all districts in California, the study compared these characteristics and others, such as student demographics, against the fiscal health categories described previously for the years 2002–03 to 2004–05, considering each characteristic (one at a time) against the fiscal health categories. The relationships discussed next are statistically significant (not likely the result of random variation).

Declining-enrollment districts are more likely to be fiscally unhealthy, and growing districts are more likely to be healthy

School districts in California have limited control over their enrollment. They must serve all students who show up for class, but the number of students can grow or decline because of larger demographic and residential patterns in the state. What districts can control—such as attracting students to good district schools or losing them to other districts or charter schools—typically have only a marginal impact on total enrollment.

Yet enrollment and attendance numbers have a substantial influence over school district expenditures and revenues in

© Copyright 2007 by EdSource, Inc.

The funding system disadvantages declining-enrollment districts

Declining enrollment puts specific fiscal stresses on school districts in California because of the funding system, while increasing enrollments bring financial advantages to districts. As school districts increase their enrollment, the state provides additional funds based on their per-pupil revenue limit. This amount represents an *average* amount that would be needed to accommodate the new workload, even though the district may not incur the equivalent increase in average costs for that unit of average daily attendance (ADA). Instead, districts usually incur a *marginal* increase in costs for each additional student. Marginal costs would be the added salary and benefit costs for a teacher and an aide (if applicable).

Conversely, when enrollment declines, school districts lose revenue limit (unrestricted) funds at the *average* rate per ADA, rather than at a *marginal* rate. To accommodate this loss of revenues, districts must cut costs beyond the classroom. A somewhat simplified example illustrates the point. If a district lost 30 ADA at a per-pupil revenue limit of $5,000, it would face a loss in unrestricted revenue alone of $150,000. However, cutting one teacher from the district's payroll would reduce costs by only about $50,000 to $60,000 (assuming the least senior staff would be released first). The savings related to an aide could be about $30,000. After making these reductions, the district would still have to find savings of at least $60,000 to mitigate the revenue loss. Reductions in other school or district operations–such as administration, student support services, or maintenance–would be required to keep the district's budget in balance. Because the scale of these operations do not adjust automatically with marginal changes in ADA, incremental implementation of reductions in these areas can be a major challenge. And this example assumes that the 30 students would all attend one school and that categorical funding (for special-needs students or for special programs) would not be reduced. Yet, neither scenario would likely be the case.

figure 3 | **Statewide, elementary districts are the most likely to be healthy**

	Percent of Districts		
	Healthy	Marginal	Unhealthy
Elementary School Districts	62%	24%	15%
High School Districts	54%	27%	18%
Unified Districts	40%	36%	24%
All Districts Statewide	**53%**	**28%**	**18%**

Note: Rows may not equal 100% due to rounding.

Data: School District Financial Management (Perry/GDTF) 2007 EdSource 4/07

California. Enrollment establishes the number of teaching and support staff a district will need. Attendance rates among those enrolled students largely determine the amount of revenue a district will receive. Enrollment growth and decline also affect a district's facility needs and costs.

Figure 2 on page 7 summarizes the distribution of all districts statewide with regard to enrollment change and fiscal health based on ADA histories from 2002–03 to 2004–05. Statewide, districts that experienced declining enrollment are under-represented in the healthy category and over-represented in the unhealthy group. Conversely, districts that experienced increased enrollment are disproportionately healthy and less likely to be unhealthy.

However, enrollment data from 2002–03 to 2004–05 do not capture the magnitude of enrollment declines that have occurred in California since then. Some districts have experienced declines over several years. In addition, an increasing number are now facing this situation, and many declines are becoming more acute.

The survey asked respondents to indicate what they expect their district's enrollment pattern to be for the next three years. Altogether 52% indicate that they expect their district's enrollment to decline, 16% predict no change, and 32% anticipate an increase.

An analysis of these responses against the districts' fiscal health show that the expectation for enrollment declines is highest in districts that are currently designated as fiscally unhealthy: almost six in 10 anticipate enrollment losses. Less than one in five unhealthy districts anticipates an increase in enrollment in the next three years. On the other hand, more than half of the currently healthy districts expect either an increase (39%) or no change (15%), while 46% of this group predict enrollment losses. Of the districts identified as marginal, 52% expect declining enrollment in the next three years.

Unified districts are more likely to be marginal or unhealthy

Based on the study's fiscal health index, the data suggest that both elementary and high school districts are more likely to be healthy and less likely to be marginal or unhealthy compared with unified districts. (See Figure 3.)

Although these data are compelling, a number of factors make it difficult to draw substantive conclusions regarding the relationship between district type and district health. For example, revenue limits per ADA—and thus total funding per ADA—correlate highly with district type. By design, the state's revenue limit system provides, on average, a higher per-pupil amount to high school districts, a lower amount to elementary districts, and a middle amount to unified districts. (However, in recent years, elementary districts have been receiving almost the same amount as unified districts.) District size is a similar variable, with

© Copyright 2007 by EdSource, Inc.

elementary districts being the largest in number but the smallest in size. By contrast, unified districts include all of the state's largest districts.

However, a further regression analysis to control for these other district variables showed the same results and that these results are statistically significant. Unified districts are more likely to fall into the marginal and unhealthy categories.

Higher-revenue districts are more likely to be fiscally healthy

The study also looked at the extent to which districts' fiscal health might be related to revenue levels. The authors examined districts' revenue limit funds and their total revenues, using a per-ADA measure to control for the size of districts. For this analysis, the study looked at elementary, unified, and high school districts separately. Although there was no statistically significant relationship for the 84 high school districts in the state, elementary and unified districts yielded a number of statistically significant results:

- Those with higher total revenues per pupil (ADA) are less likely to be in the marginal or unhealthy category.
- Looking only at revenue limit amounts per ADA, the same relationships are true, with districts that have higher revenue limit amounts more likely to be in the healthy category.
- An examination of "other revenues" (total revenues minus revenue limits) shows the same general pattern, but not as strongly.

The study found that, for the most part, district size alone did not seem to have a clear relationship to fiscal health. But there was one exception: large elementary districts are more likely to be marginal than healthy.

Data on district leadership provide a partial picture

The study looked at a variety of issues related to the superintendent and the CBO to learn more about the people responsible for keeping California school districts fiscally healthy. Topics of interest included the stability of district leadership and the education and experience of district chief business officers. State data on these topics is extremely sparse, so the study depended on the CBO survey and proprietary data sources.

Fiscally healthy districts are more likely to have stable leadership and more administrative staff

Districts with the highest stability in the superintendency are more likely to be fiscally healthy, based on data for the sample districts and the state as a whole.

Based on survey responses, the level of CBO education or training is not clearly related to fiscal health among the sample districts, but healthy districts are more likely to have had the same CBO for a decade or more.

Districts in the sample that have administrative staffing ratios lower than 125 to 1 are more likely to be healthy.

The majority of California school districts have stable top leadership and well-educated CBOs

Based on data collected by EdSource over several years, 39% of California school districts had the same superintendent from 2001–02 to 2005–06, and another 46% had only one leadership change in that time. In other words, about 85% of school districts in the state had relative stability at the top during that period. No data are available regarding superintendents' total years of experience in the role or their education.

The CBOs who answered the survey are generally well-educated. The vast majority of respondents report holding at least a bachelor's degree, and three-fourths hold a bachelor's or advanced degree in a finance-related field. Further, the majority of CBOs say they have participated in some voluntary training. (See the box on page 11.)

Stability of business leadership is difficult to measure, again due to a lack of state data. Survey responses, however, provide a sense of what may be happening statewide. They indicate relatively high turnover in any given district, but a relatively experienced cadre of people filling CBO jobs statewide. On average, respondents had 4.7 years of tenure as a CBO in their districts and 10.5 years of experience in the role. Among the 129 CBOs who responded to this question, 43% report having 10 years or more of experience, but only 9% say they have been in their current position for that length of time.

Most CBOs in California have a broad scope of responsibility. Respondents to the survey are nearly unanimous in saying that they are responsible for their district's budgeting, accounting, purchasing, and risk management/insurance administration. Approximately seven out of 10 indicate responsibility for facilities, maintenance, operations, transportation, and food service. Only about half, however, say they handle their district's information technology, and about 15% say they have human resources responsibility for both certificated and classified staff.

The study also used state data to compare the level of administrative staffing in the sample districts, based on a ratio of staff to students. The data include both district office administrators and employees in the office/clerical category. The majority of districts in the sample

© Copyright 2007 by EdSource, Inc.

(58%) have a staffing ratio of between 75 and 125 students per administrative staff, but nearly 30% have fewer staff.

Attention has been directed at improving the capacity of CBOs

Presumably, appropriate education and training are an important part of preparing school district CBOs for this demanding and complex work, particularly absent any mandatory or voluntary certification procedure in California.

In California, there has been increased recognition that effective financial leadership requires that CBOs in particular have sound knowledge of good fiscal management practices. The growing number of districts nearing or reaching fiscal insolvency ultimately prompted legislative action in 2005. Prior to that, the state had no specific policies regarding training or qualifications for CBOs. This action followed several years of work on the part of state officials and the education community.

The CBO training bill, Senate Bill 352, which passed the Legislature in 2005, was supplemented by a $1 million ongoing budget augmentation. The program provides $3,000 per candidate to attend one of several approved training programs (enough for close to 350 participants annually). In March 2006 the State Board of Education approved criteria for training providers, and the first cadre of participants was approved during the summer.

The legislation further required that the CDE provide both an interim and final report on the program. Included in the interim report, due in July 2007, will be the "identification of the core competencies that should, at a minimum, be included as part of a state-administered chief business officer certification." The legislation does not, however, call for that certification to be implemented.

Previously, private organizations and FCMAT provided the CBO training available in California, and individuals or school districts generally paid for it. Four primary options were available. This study asked respondents about the extent to which they participated in those programs, and most reported having done so at least once. (See the box on page 11.)

Fiscally healthy districts have well-trained board members, high-quality policies, and the ability to cut programs not aligned with their goals

CBOs in healthy districts are more likely to:

- Characterize the general orientation that board members receive as high-quality;
- Report that their district has high-quality policies and regulations;
- Say that their district has to a great extent established procedures for evaluating the financial impact of budget amendments and has been able to cut programs that are not aligned with strategic goals.

Financial management practices are somewhat consistent with professional standards

In developing its system of fiscal oversight of school districts, California has focused on identifying and intervening in bad situations. In a more constructive vein, documents from the Association of School Business Officials International (ASBO) and from other states recommend some professional standards for school district CBOs. They also address district financial management and governance more generally. These standards documents, combined with the experiences and backgrounds of School Services and EdSource during the last 30 years, helped guide the development of the survey for this study.

School board governance and decision making affect financial management

Along with their responsibility to understand the state and federal laws under which school districts operate and to maintain professional standards, CBOs play an important role in informing the decision making of their school board and superintendent. Further, their ability to function effectively can be either helped or hindered by the quality of those decisions.

In California, school district governing boards have the ultimate responsibility for approving their district's budget and for many ongoing financial decisions. To do this effectively, board members need to, at a minimum, have a clear and accurate understanding of the school finance system, accounting principles, district operations, and the role they should play in the district's fiscal affairs. The study did not survey school board members regarding these issues, but instead asked CBOs some key questions about the district support given to board members. The survey also asked about the extent to which the district as a whole aligned its expenditures with strategic goals and priorities.

School board members often do not receive high-quality training, according to the CBO survey

Although the vast majority of CBOs who responded to the survey say their school board members receive some training on school district budgeting and finance, only a quarter of them characterize that

© Copyright 2007 by EdSource, Inc.

training as being of high quality. In addition, almost 40% characterize the general orientation board members receive as high quality. Most CBOs also report that their school boards formally evaluate the superintendent's performance, but that few boards conduct formal self-evaluations.

Respondents also say that boards receive good quality financial information and that written district policies and regulations are of high quality, even though they are not always promptly updated.

CBO responses vary widely regarding the extent to which finances are linked to priorities

CBO responses vary more widely on questions regarding how strategically districts make their financial decisions. Substantial proportions say their district, to a great extent:

- Follows a strategic plan (31%);
- Links its financial plan and budget to priorities (37%);
- Regularly adjusts its budget to meet priorities (42%); and
- Considers goals closely when implementing a new program (47%).

Conversely, between 20% and 35% of respondents answer in the negative regarding these same practices.

Two other questions about strategic decisions were markedly less positive. Just 23% of CBOs say their districts have to a great extent established procedures for evaluating budget amendments against district goals or that they are able to cut programs that do not further those goals.

Most CBOs say they use appropriate financial-control procedures, but fewer rely on some cost-cutting strategies

Almost all the CBOs who answered the survey report that they follow appropriate financial-control procedures, meet both legal and professional standards for debt management, and satisfy legal requirements for purchasing. They also report using cost-cutting strategies, such as "piggyback bidding" (in which several districts work together to bid) to cut the cost of some purchases. Somewhat fewer respondents say their district always or often uses two other cost-cutting strategies—joint power authorities and direct delivery of supplies to schools (at 75% and 64% respectively)—as part of their purchasing practices. Respondents are also overwhelmingly positive about the use of high-quality estimating and budgeting procedures.

Respondents were also asked a series of questions about their approach to enrollment projections, including their use of statistical techniques and consideration of external factors, such as new housing developments. While six out of 10 say they always or often do these things, less than 17% say their district is always able to accurately predict turning points in enrollment. And a substantial minority (30%) report that they are sometimes or rarely able to do so.

Likewise, although respondents largely say that their district's financial software meets basic accounting requirements, they are less likely to say it provides capital-project tracking or

The majority of CBOs report participating in some voluntary training

The majority of CBOs surveyed reported having participated in or completed at least one of the four voluntary training programs that were available to them prior to the 2006–07 school year. Of the 93 respondents, 26 had participated in multiple programs.

53.5% participated in CASBO Chief Business Official Certification Program. The California Association of School Business Officials certification program is one of the longest-running and most comprehensive training programs in California. Participants are required to complete 30 semester units of classes at accredited colleges and universities (or professional organizations, as appropriate). In addition, participants must complete an additional 40 hours of continuing education every five years to ensure certification renewal.

48% participated in ACSA School Business Managers Academy. The Association of California School Administrators School Business Managers Academy was designed to meet certain requirements of the California Commission on Teacher Credentialing Professional Clear Administrative Services Credential. The program is held on 10 weekends throughout the school year.

23% participated in the School Business Management Certificate Program. This yearlong program offered by the University of Southern California (Rossier School of Education) requires attendance two weekends per month (10-hour sessions) to complete 26 units of coursework, plus a fieldwork analysis and presentation. It also provides mentors for students. In 2005 the program began operating as a partnership with School Services of California, Inc.

8% participated in the new FCMAT CBO Mentor Project. Coordinated by the Fiscal Crisis & Management Assistance Team, this new program trained its first cohort of 20 CBOs during the 2004–05 school year. This project—a collaboration between CASBO, School Services, FCMAT, and California County Superintendents Educational Services Association (CCSESA)—emphasizes long-term, hands-on training and guidance. Training occurs during one year and consists of eight day-and-a-half sessions and various projects outside class. Participants are paired with an experienced CBO mentor.

© Copyright 2007 by EdSource, Inc.

that the format for financial reports is easy for the board to understand and helpful for their decision making, with about six out of 10 agreeing with those statements.

CBOs are less positive about the systems in place to maintain facilities

The business office practices districts use to maintain existing facilities are important. Inadequate controls on the quality, cost, and tracking of these facility needs can affect a district's fiscal health. They can lead to unexpected and sometimes substantial expenditures when building systems—such as plumbing, roofing, heating, and electrical—suddenly fail.

CBOs were asked a few questions about the systems in place in their district to control, plan for, and set quality standards for the maintenance of facilities. Their responses to these questions are substantially less positive than is the case for most other areas of the survey.

One group of questions related to the measures districts take to document expectations for high-quality work and evaluate that work, including the use of written procedures. In contrast to many areas of this survey, where the bulk of respondents selected the most positive response, only about 20% of respondents report that their practices are of high quality in those areas.

A second set of survey questions asked about processes related to prioritizing maintenance needs, completing project cost estimates, and using a computerized system to track work orders and inventory. On these questions, about a third of respondents say their practices are of high quality.

The responses to all these questions followed a consistent pattern in relation to district fiscal health, with unhealthy districts less likely to report practices of high quality. However, these differences are not at a statistically significant level.

Compensation issues are a central concern in relation to fiscal health

Because personnel costs constitute more than 85% of operating expenditures in the average California school district, the issues related to employee compensation can be central to a district's financial management and fiscal health. This study looks at three areas related to compensation: collective bargaining procedures and relationships, compensation practices, and retiree health benefits.

CBOs from unhealthy districts say their software does not track capital projects and is not easily understood by board members

CBOs from unhealthy districts are less likely to say that their district's financial software systems provide capital-project tracking or that the format for financial reports is easy for school board members to understand and helps with their decision making.

Certain other financial control practices set fiscally healthy districts apart, including: (1) complete agreement that they analyze significant expenditure processes to ensure appropriate controls; and (2) that they analyze significant contracts, financial negotiations, and expenditures for unusual cost fluctuations.

Most CBOs report positive relationships with unions

In general, survey respondents report meeting professional standards for collective bargaining procedures and having positive relationships with their districts' primary teachers' union.

Further, the vast majority of CBOs report good-quality preparation for bargaining, including the financial estimates they prepare for the governing board. However, respondents were less positive about the quality of training and support that bargaining teams receive, with just 40% saying the training is of high quality.

Compensation trends show consistent salary increases but restraint on retiree benefits

A comparison of state data regarding compensation increases from 2002–03 to 2004–05 show that the state's statutory cost-of-living adjustments (COLAs) resulted in an increase in revenues of about 4% in the average district in the sample. During the same time frame, increases in salaries and benefits averaged a relatively uniform 7% among sample districts—a 3% difference.

However, regarding their most recent contract (generally 2005–06), only about 19% of survey respondents report that their district had granted a salary increase larger than the COLA. The majority of respondents also say their district follows recommended practice by negotiating total compensation (salary plus benefits) and having a hard cap on the per-employee cost of health and welfare benefits.

Slightly more than 10% of the districts in the study sample (and a similar proportion statewide) have the most costly postretirement benefits—lifetime health care.

The study took a limited look at resource allocation practices at the school level

State data in California provide little information about how districts allocate resources to their school sites, which is an important question because schools are the key operational units in

© Copyright 2007 by EdSource, Inc.

a school district. To attempt to shed some light on this, survey respondents were asked about the financial-management ability of school principals and their districts' school-level allocation policies and practices.

Principal financial training appears to be lacking in many districts

Based on the survey responses, there appears to be some disconnect between districts' expectations of principals and the training they receive. The vast majority of CBOs report that their district clearly communicates to principals the scope of their financial authority, and three-fourths say principals are held accountable for sound financial management. However, only about 60% say that principals receive training on financial management and budgeting to either a good or great extent, and just 40% say the same is true for school-level budget and policy groups (such as school site councils). Responding CBOs also indicate that school-level allocation policies generally place more emphasis on district control and guidelines than on school flexibility.

Reporting of district-to-school resource allocation practices shows little variation

Another set of survey questions explored in greater detail how districts allocate resources to schools, first by asking respondents to indicate which of three choices came closest to describing how general-purpose resources are allocated to the majority of schools within their district.

Among the 131 CBOs who answered this question, 30 put their district at one of two extremes in terms of school-versus-district control of resource decisions:

- 8% of respondents say their district office gives the school a budget to work with for both personnel and nonpersonnel costs, and the school chooses how to spend those funds.
- 15% of respondents report that their district office determines the number of teachers, administrators, and support staff at a school and also determines the school's spending for nonpersonnel items.

Lifetime health benefits for retirees are correlated with poor district fiscal health

Healthy districts are more likely to report high-quality cost estimates and bargaining team training. However, the study found no significant relationship between reported compensation practices and district fiscal health, except one.

The one area of compensation practice that is significantly correlated with fiscal health is if a district reports granting lifetime health benefits to retirees. Districts in the survey that report having lifetime benefits are more likely to be unhealthy. Statewide data reveal similar results. The study identifies 72 districts statewide that have granted these benefits to their retirees. These districts serve 1.4 million students (about 24% of the students in the state).

A substantial majority of respondents—77%—took a middle ground on this question, agreeing with the following: "The district office determines the number of teachers, administrators, and support staff a school has and then gives the school a budget for nonpersonnel costs, and the site chooses how to spend those funds."

The 101 CBOs who reported that their district struck the middle ground in terms of its allocation approach were asked a further series of questions to discover what constitutes standard practice among the apparently typical districts in which the district makes personnel decisions and the schools control nonpersonnel budgets.

Districts decide the number of teachers; schools have more voice in which people and their assignments. Arguably the most important resource in a school is its teachers. The survey asked the 101 CBOs how decisions were made about the number of teachers assigned to a school and about the assignment of individual teachers both to a school and to specific teaching assignments within a school:

- The overwhelming majority (92%) say their district decides on the number of teachers at a school, but a substantial portion—(52 schools or 54%)—report that schools provide input.
- CBOs in the survey say that schools are much more likely to have a decision-making role regarding the specific teachers assigned to a school, with about a fourth saying schools decide within district guidelines. More than a third (37%) characterize this as a shared decision.
- When individuals are assigned within a school, however, 70% of the respondents say that schools either decide alone (16%) or within district guidelines (54%). Another 16% report that the school and district share equally in the assignment decision.

Districts exercise considerable control over other staff assignments. Among the CBOs who responded to this series of questions, they overwhelmingly report that their districts decide both the number and type of site administrators. Schools have only a bit more influence over the number and type of professional support staff. Although still limited,

© Copyright 2007 by EdSource, Inc.

schools appear to have slightly greater influence over classified staff decisions.

Schools decide on supply purchases, but they have limited authority over other nonpersonnel expenditures. Additional questions looked at the balance of decision-making authority for a variety of nonpersonnel expenditures. The CBOs who responded to these questions varied substantially in how they described allocation practices that, based on their general answer, they had characterized as being the choice of schools:

- Regarding professional development for teachers, the majority of respondents (58%) report that the district and schools share equally in the resource-allocation decision.
- Regarding decisions about capital equipment purchases (e.g., computers, copiers), about half the respondents report that schools decide either within district guidelines (41%) or alone (7%). The remainder are nearly evenly divided between schools and districts sharing the decision and districts deciding either with school input or alone.
- It appears that the one area where schools have the greatest discretion is in purchasing supplies. The vast majority of the respondents (85%) report that schools decide this alone (32%) or within district guidelines (53 %).
- By contrast, textbooks and instructional materials are not a school-level decision among the majority of districts surveyed. About a third of respondents say schools decide alone or within district guidelines. The balance of responses are split, with 28% saying schools and districts share the decision and 40% reporting that districts decide with school input or alone.
- Respondents are also clear that the district is the key decision maker regarding staff and services related to facilities upkeep. About 80% say the district makes these decisions with school input (39%) or alone (41%).

CBOs report that staff allocation decisions consider school and student characteristics. The survey asked CBOs a further question about how their districts decide on the number and type of personnel assigned to a given school and the extent to which they consider a variety of school conditions in those decisions. Overall, respondents report that their districts give some consideration to school performance and to student characteristics—particularly the percentage of English learners—when they allocate personnel to schools:

- About a third (31%) of respondents say that their district strongly considers school-level performance on state tests when it decides on the number and type of personnel to assign to a school. About half (49%) say this is somewhat of a consideration.
- Responses are similar in regard to the extent that the district considers the percentage of low-income students when it allocates personnel to a site, with 27% saying it is strongly considered and 55% saying it is considered somewhat.
- The vast majority of respondents say their district considers a school's percentage of English learners either strongly (43%) or somewhat (51%).

Increasingly, criticism has been leveled at school districts that overload schools with inexperienced teachers, particularly when those schools serve the neediest students. The survey attempted to learn the extent to which districts considered the experience of a school's teaching staff when it allocated personnel. A small group of respondents (19%) report that this is strongly considered, and another 49% say it is considered somewhat.

Fiscally healthy districts are more likely to emphasize school-level capacity, accountability, and flexibility

Fiscally healthy districts are more likely to emphasize school-level capacity, accountability, and flexibility. An analysis of school-level allocation practices reveals some statistically significant differences depending on districts' fiscal health designation of healthy, marginal, or unhealthy:

- The extent to which principals receive training related to fiscal management and budgeting is reported to be significantly greater among respondents from healthy districts.
- Fiscally healthy districts are more likely to expect their schools to link financial decision making to school and student performance outcomes.
- The districts that report providing principals with staffing and budget flexibility to a great extent are significantly more likely to be in the healthy category.

Respondents whose districts are fiscally unhealthy are more likely to say that the district determines both personnel and nonpersonnel expenditures (23%) and less likely to say that their schools choose how to spend funds in both categories (3%).

What are district CBOs concerned about in the future?

When asked about the threats they see to fiscal health both in the recent past and the future, CBOs report that rising costs have been the most common threat to their districts' fiscal health,

© Copyright 2007 by EdSource, Inc.

particularly cost increases related to Special Education, transportation, and staffing. Looking forward, they project the same to continue; but nearly a quarter also mention enrollment changes—most notably declines—which lead to revenue declines as well.

Reported threats to districts' fiscal health focus on rising costs

Respondents were asked to look back and report on any circumstances that were unique to their district, were outside the district's control, and threatened the district's ability to remain in good fiscal health. About half the respondents answered, and several mentioned two or more circumstances, providing a total of 98 responses to this question.

The majority of these responses deal with issues related to increased expenditures:

- The most common response, Special Education, is often more specifically described as Special Education encroachment (the need for a district to contribute a greater-than-expected portion of its general operating funds to support a categorical program).
- Encroachment is also an issue mentioned in regard to transportation, a program for which the state provides some funding based on historical funding formulas rather than on district costs.
- Staff-related costs of various kinds are also mentioned often, most notably increases in medical benefits for current employees and retirees.

About one in five responses focus on reduced district revenues as a result of losing students, primarily through declining enrollment.

Respondents differ in strategies for coping with enrollment declines

Enrollment changes occupy a prominent place for many respondents, with more than half the districts expecting declines. Respondents were given a list of actions they might use to address this and instructed to check all that applied. The results indicate that:

- Virtually all districts will consider reductions in teaching staff.
- Nine in 10 districts will consider reductions in classified staff.
- Seven in 10 districts will consider reductions in administrative staff.

In addition, 42% of the districts anticipating a drop in enrollment are considering reconfiguring their existing schools, and 35% say that school closure is under consideration.

Financial management is a complex undertaking in California

The safety net created by the state through its requirements for fiscal responsibility (AB 1200 and AB 2756) has reduced the number of school districts that would otherwise have had a fiscal crisis. However, those systems could be made more effective through better financial planning on the part of districts and better oversight on the part of county offices. But even if those improvements were made, California school districts confront revenue and expenditure issues that can make it difficult to maintain fiscal health and even more daunting to strategically allocate resources in ways that further student performance goals.

This study makes it clear that it is easier for some California school districts to stay fiscally healthy than it is for others. Districts that have lower revenues are more likely to be unhealthy as are those experiencing declining enrollment. With about half of California districts projecting enrollment declines, this could represent an important and continuing problem. But these external conditions are not the whole story because districts that vary in their fiscal health also report differences in their financial practices and their personnel.

The study indicates that leadership stability is particularly important for school districts because it provides an environment in which district goals and priorities can be consistent and clear, allowing professional practices to take root and flourish. Further, these leaders need to be well prepared for their financial management responsibilities. Based on the survey findings, training in financial management could be improved in several areas, including:

- School district budgeting and finance for school board members;
- The negotiating process generally for collective bargaining teams; and
- Fiscal management and budgeting for school site administrators.

Based on the CBO responses, it also appears that there are some specific areas of financial management that California school districts could strengthen to their advantage. Adequate staffing of administrative positions could help districts ensure their financial security. In addition, the relatively negative responses in the study on the few questions about systems in place to control, plan for, and set quality standards for the maintenance of facilities suggest another specific area where practices could be improved.

Linking resource allocations to educational goals is an ambitious objective that warrants more study

Increasingly in California, critics are calling for a change in the state's approach to funding its schools. Such a critique was a major message in the *Getting Down to Facts* research project released in March 2007. A major goal is to more effectively use school resources to improve student performance. Opinions vary, however, about what a better resource allocation system would look like.

One common theme in this discussion is the desirability of putting resource allocation decisions closer to the classroom and the student. Advocates argue

© Copyright 2007 by EdSource, Inc.

To Learn More

For the findings of the full study and references, including the survey that district chief business officers completed, go to EdSource Online, **www.edsource.org**, to EdSource Research Studies on the right and click on *School District Financial Management: Personnel, Policies, and Practices.*

Also see *Understanding School District Budgets* (1/05): **www.edsource.org/pub_abs_budgetguide04.cfm**

Works Cited

Association of School Business Officials International. *The State of State Certification for School Business Officials.* **http://asbointl.org/asbo/files/ccLibraryFiles/FILENAME/000000000379/Certification-Document-FINAL.pdf**. Accessed on Aug. 23, 2006.

Association of School Business Officials International. *International School Business Management Professional Standards and Code of Ethics.* **http://asbointl.org/asbo/files/ccLibraryFiles/FILENAME/000000001176/ASBO-Professional-Standards-2006.pdf**. Accessed on Aug. 3 & 4, 2006.

Childress, Stacey; Elmore, Richard; and Grossman, Allen. *Promoting a Management Revolution in Public Education.* Public Education Leadership Project at Harvard Business School, July 2005.

Duncombe, William; Ammar, Salwa; Jump, Bernard; and Wright, Ronald (2003). *Developing a Financial Condition Indicator System for New York School Districts.* **www.albany.edu/edfin/Duncombe.EFRC.june03.pdf** and **http://nces.ed.gov/pubs2005/2005865_1.pdf**. Accessed on Nov. 1, 2006.

Florida Legislature Office of Program Policy Analysis and Government Accountability. *Sharpening the Pencil Program: Best Financial Management Practices.* **www.oppaga.state.fl.us/school_districts/bestprac/practices/practices.html**. Accessed on Aug. 4, 2006.

that if greater accountability for results accompanied this change, districts and schools would operate more efficiently and students would be better served. Much of the discussion in California, with its state-controlled funding system, currently revolves around the question of school districts having greater flexibility. However, the question of flexibility for schools is invariably part of this discussion.

The study looks at the extent to which the concepts of strategic resource allocation and site-level decision making have salience among California school districts, at least as reported by their CBOs. Having a clear picture of what exists in the state in this regard—both in terms of attitude and practice—is valuable as a starting place for further research and debate. It is also interesting that the study found a significant difference in fiscal health in those districts that pay attention to principals' capacity for financial management, expect principals to link fiscal decisions to student performance, and provide schools with budget flexibility. These findings are not sufficient to indicate that these practices are why districts are healthy, but they do suggest an area where more information is needed.

Controlling expenditures is the key to fiscal health in California

Given their inability to raise significant revenues on their own, a key to fiscal health for most California school districts lies in controlling their expenditures. The need to do so creates a dynamic tension between their responsibility to deliver sound, effective educational services to their students and to reasonably compensate their employees. Some fiscally healthy districts may maintain their fiscal status by scrimping on the services they provide. Others may risk being fiscally unhealthy in the name of educational quality. And some districts are apparently able to strike a delicate balance between these two extremes through a combination of effective financial practices and perhaps some good fortune in terms of the amount of revenues they receive.

The study's findings illuminate some possible strategies for improving districts' ability to be in this latter group, but they also shed light on the complexities involved in doing so in California. In addition, they raise important issues related to school district financial management that warrant more study, including further examination of district leadership as a key factor that, at least in some cases, can overcome weak financial fundamentals.

EdSource® Clarifying Complex Education Issues®

Trish Williams
EdSource Executive Director

2006–07 EdSource Board of Directors

Davis Campbell, President
President, California School Boards Association Governance Institute

Lawrence O. Picus, Vice President
Professor, Rossier School of Education, University of Southern California

Martha Kanter, Fiscal Officer
Chancellor, Foothill-De Anza Community College District

John B. Mockler, Secretary
President, John Mockler & Associates, Inc.

Ray Bacchetti
Scholar in Residence, Carnegie Foundation for the Advancement of Teaching

Pam Brady
President-elect, California State PTA

Christopher Cross
Chair and CEO, Cross & Joftus, LLC

Gerald C. Hayward
Partner, Management Analysis & Planning, Inc.

Santiago Jackson
Assistant Superintendent, Division of Adult and Career Education, Los Angeles Unified School District

Jacqueline Jacobberger
President, League of Women Voters of California

Kelvin K. Lee
Superintendent (Retired), Dry Creek Joint Elementary School District

Donna Lilly
Co-president, American Association of University Women–California

Paul J. Markowitz
Teacher, Las Virgenes Unified School District

Ted Olsson
Manager (Retired), Corporate Community Relations, IBM Corporation

Amado M. Padilla
Professor of Education, Stanford University

Peter Schrag
Contributing Editor, Sacramento Bee

Don Shalvey
CEO and Co-founder, Aspire Public Schools

Krys Wulff
Director-at-large, American Association of University Women

© Copyright 2007 by EdSource, Inc.

EdSource® Clarifying Complex Education Issues®

REPORT

SEPTEMBER 2009

Local Revenues for Schools: Limits and Options in California

HIGHLIGHTS

- Locally generated revenues are a very small portion of school funding, and the amounts vary dramatically by community 2
- A lawsuit concerned with funding inequities and an initiative aimed at controlling property tax increases in large part created today's state-controlled school finance system 4
- Diverse stakeholders are discussing ways to allow communities to raise more funds for their schools, including changes to Proposition 13..... 6
- Local revenue options should be part of larger discussions about how to fix the state's budget process 7

EdSource thanks Full Circle Fund for supporting the development and dissemination of this report.

Throughout the chaos that has characterized California's budget process in recent years, education funding has been a central issue. K–12 schools represent the single largest expenditure in the state budget. As a result, they are seen by some as a major drain on state coffers and by others as the hardest hit victims of the state's fiscal meltdown.

California's schools have sustained significant funding cuts since 2007, yet substantial evidence indicates that Californians do not want to see cuts to their schools. Despite an extraordinarily difficult economy in the fall of 2008, the vast majority of state residents who were asked to raise their own taxes in support of local schools agreed to do so.

But California law severely limits local school districts' revenue-raising authority compared with most other states and compared with what was possible here prior to 1972. Decisions made in the 1970s also shifted control of school funding to the state. Many believe these changes eroded the connection between schools and their communities and help explain why California today funds its schools well below the national average. But proposals to make it easier for local communities to increase funds for their schools raise concern among both tax opponents and social justice groups. The latter worry that easing fundraising restrictions without considering equity issues might disproportionately advantage wealthier neighborhoods and exacerbate an already substantial gap between the academic performance of students from low- and high-income families.

This brief provides background on California school districts' current options for raising their own revenues and describes some ways to expand their ability to do so.

EdSource® is a not-for-profit 501(c)(3) organization established in California in 1977.

Independent and impartial, EdSource strives to advance the common good by developing and widely distributing trustworthy, useful information that clarifies complex K–14 education issues and promotes thoughtful decisions about California's public education system.

Districts are limited in generating additional revenues for school operations

Under current state law, districts can augment the local funding of their schools in just a few ways, most notably private donations, parcel taxes, and the seldom-used sales tax. Taken together, these revenue sources currently generate a very small portion of total K–12 funding in the state, but in some communities they provide substantial amounts per pupil.

Private monetary and in-kind contributions are unofficial revenue sources

The state puts almost no limitations on the amount and use of private donations to public schools. Information about the precise amount of money raised through private contributions is not available, though two sources provide some perspective.

The California Consortium of Education Foundations (CCEF) reports that the state has more than 600 foundations, which together raised more than $150 million in 2007. Found in most California counties, these foundations can be countywide, districtwide, or in a single school.

The Ed-Data Partnership website, which compiles revenue data as reported by school districts, also provides information on local contributions. In the "all other local revenue" category, which includes donations and several other sources, the statewide total in 2007–08 was $953 million, or about $163 per student on average (based on average daily attendance or ADA). This amount is dwarfed by the $53.3 billion general fund revenues reported by districts. In addition, the amount per district varied substantially. A very small number of districts reported more than $1,000 per pupil, while other districts recorded no revenues. For some schools and districts, in-kind contributions of equipment, materials, or volunteer hours also represent substantial supplementary resources, much of which goes unreported.

In some districts, parcel taxes have been an important mechanism for local revenue enhancement

Communities can also raise funds for their school districts by approving a tax on parcels of land by a two-thirds vote. California is the only state that allows parcel taxes as a method of funding schools, according to a 2007 report by researchers William Duncombe and John Yinger.

Most parcel taxes assess a flat fee on each parcel of property, no matter what its size or value. Prior to the passage of Proposition 13 in 1978, they were expressly forbidden by the state constitution. Property had to be taxed in proportion to its full value. Proposition 13 severely constrained the growth of property taxes, but it allowed local governments, including school districts, to pass a new "non-ad valorem" tax (not based on the value of property) if they received approval from two-thirds of voters.

Some consider parcel taxes that charge a uniform fee to be regressive because property owners typically pay the same amount regardless of the value of their property. Since 2001, at least eight school districts have passed parcel tax measures that established separate rates based on square footage or other property improvements. The other concern about parcel taxes is that their yield does not increase over time, while district costs generally keep rising. At least two school districts since 2007 have built an annual inflation increase into their tax rate.

When holding parcel tax elections, districts must declare the specific purposes of the tax. Parcel taxes generally remain in effect for three to ten years, but the timeframe can be longer, even permanent. State law requires the district's chief financial officer to report annually to its school board on the amount of funds collected and spent as well as the status of any project called for in the measure.

The state largely controls the revenues school districts receive

Funding for school operations comes from several sources, only one of which is under the control of California's local school districts.

- **59%—State General Fund,** which is fed mainly by income, sales, corporate, and capital gains taxes.
- **23%—Property taxes,** which are collected by counties. The state determines how to allocate them among school districts and other local governments. The tax rate is set in the state constitution.
- **10%—Federal government,** which generally provides only categorical funding (money earmarked for specific purposes, such as compensatory education for low-income students). The state distributes most of this funding. The recent stimulus package has temporarily increased the federal share.
- **1% to 2%—State lottery.**
- **7% to 8%—Local miscellaneous sources,** such as donations to local schools, interest income, and parcel taxes. Local school districts and their communities largely control these revenue sources. The amounts vary dramatically from one district to another.

Note: The percentages may not add up to 100% due to rounding.

© Copyright 2009 by EdSource, Inc.

Although all districts can propose a parcel tax to their community, they are relatively rare in most of the state. Between 2001 and June 2009, out of roughly 980 California school districts, 132 conducted parcel tax elections and 83 districts passed them. Only seven of those districts were located in Southern California, while 66 were within the nine-county San Francisco Bay Area. The districts that had successful elections generally serve fewer low-income students than the typical California school district. They are also disproportionately small, with 66 (80%) of them serving fewer than 10,000 students. (See Figure 1 for examples of exceptions.) In 2007–08, those districts that had parcel tax income reported total revenues of $200 million, according to Ed-Data.

The combination of parcel tax rate and number of students determines the level of per-pupil revenues a district can raise. The variations in 2007–08 were striking:

- In Alum Rock Union, where 90% of students are low-income, a $100 per parcel tax with an inflation adjustment provided $161 per student (ADA).
- In West Contra Costa—one of four districts with more than 25,000 students that have passed parcel taxes—a tax rate of $0.72 per square foot raised $340 per student. About 62% of students in this district are low-income.
- In San Marino Unified, a small district in Los Angeles County with almost no low-income students, a $795 per parcel tax raised $472 per student.

One county has increased its local sales tax to help its schools

State law also allows communities to supplement school revenues by increasing their local sales tax. This requires a two-thirds vote and can be done only at the county level. In cases where the school district and county boundaries are the same—for example, San Francisco Unified School District—a county sales tax increase benefits only one district. In most of California's 58 counties, a county sales tax would require school districts and the county government to cooperate and agree on the allocation of revenues.

figure 1 | **Altogether 83 districts passed parcel taxes between 2001 and June 2009**

The typical district was located in the San Francisco Bay Area and had about 3,180 students of whom 15% qualified for free/reduced-price meals (F/RPM) and 9% were English learners (ELs).*

District Name	Enrollment	% F/RPM*	% EL*	Parcel Tax Rate and Term
A sample of a few of the districts that serve high proportions of low-income and EL students				
La Honda–Pescadero Unified	372	53.2%	47.3%	$100/parcel–7 yrs
Santa Barbara Elementary	5,640	60.5%	47.0%	$27/parcel–4 yrs
Franklin-McKinley Elementary	9,957	72.7%	60.3%	$72/parcel–9 yrs
Ravenswood City Elementary	4,936	79.2%	60.7%	$98/parcel–5 yrs
Alum Rock Union	13,841	90.3%	56.4%	$100/parcel–5 yrs–adjusted for inflation
Four districts have more than 25,000 students				
San Ramon Valley Unified	25,959	2.0%	4.4%	$144/parcel for 7 yrs
West Contra Costa Unified	30,830	62.4%	33.8%	$.072 per sq. ft. of total bldg area or $7.20 per vacant parcel–5 yrs
Oakland Unified	46,431	68.5%	30.0%	$195/parcel
San Francisco Unified	55,069	53.8%	29.5%	$198/parcel–20 yrs–adjusted for inflation
Some districts assess particularly high amounts per parcel				
Piedmont City Unified	2,552	0.3%	3.7%	From $1,200 per multifamily unit to $3,065 for a lot over 20,000 sq. ft.; separate rates for commercial
San Marino Unified	3,199	1.0%	4.6%	$795/parcel–6 yrs
Kentfield Elementary	1,001	0.0%	2.4%	From $773.94 to 12,945 per parcel–10 yrs with annual 5% COLA
Ross Elementary	374	0.0%	0.8%	$626.98/parcel–8 yrs with annual 3% COLA

*Based on medians for the 83 districts. All demographic data are for 2007–08.

Data: The Ed-Data Partnership — EdSource 9/09

Since 1983, three counties have attempted to increase the local sales tax rate to aid schools—Mariposa (twice), San Francisco, and San Mateo. Only San Francisco succeeded, passing a quarter-cent increase in June 1993 with 74% approval. Mariposa's two

© Copyright 2009 by EdSource, Inc.

Districts can raise funds for some specific purposes

State law allows school districts to generate revenues in two other significant ways, but neither can be used for general operating costs.

Districts often raise funds for facilities by approving local bonds

School districts' most significant revenue-raising opportunity relates to facilities only. Districts can issue general obligation bonds to build or renovate facilities with the approval of two-thirds of local voters or just 55% if they meet specific conditions related to the election and public oversight. They levy an ad-valorem tax to pay back those bonds. Districts could begin passing bond measures with 55% voter approval in 2001. Since then, 83% of these elections have passed, generating more than $51.5 billion in facility funds for the state's schools.

About 39% of districts—in all but five counties—have passed at least one bond. They include districts of all sizes and types, serving students from a wide variety of backgrounds. Districts often use these funds to meet a matching requirement and qualify for state facility funds.

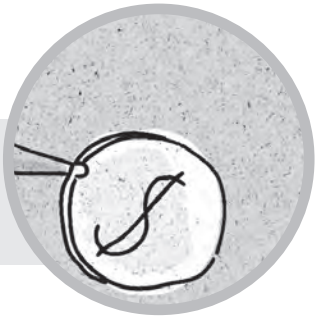
User fees help cover costs of extracurricular activities but may not be used for course-related expenses

In 1984, the state Supreme Court ruled in *Hartzell v. Connell* that school districts could not assess user fees for activities closely linked to classes. For example, schools cannot charge students to take part in a noncredit musical performance associated with a for-credit music class in which students rehearse for the performance. However, districts can—and often do—assess fees for activities that are not directly related to a class, such as athletics and transportation.

attempts both garnered more than 55% approval but fell short of the required two-thirds. Only 28% of San Mateo's voters supported a sales tax increase for schools.

Sales taxes have two notable features. First, sales tax revenue—which fluctuates in tandem with general economic conditions—is more volatile than property tax funding. Second, sales taxes are regressive, having a disproportionate impact on poor consumers, who spend a greater percentage of their incomes on sales taxes. Exempting some items, such as food and medicine, from a sales tax can make the tax less regressive but also less stable. Five other states allow school districts to levy some sort of sales tax: Louisiana, Tennessee, Alabama, Alaska, and Virginia.

Districts could largely determine their property tax revenues before *Serrano v. Priest* and Proposition 13



California's current school finance system began taking shape in the late 1960s and was solidified in the late 1970s. Before that, school districts received the bulk of their funding through local property taxes. Districts could set their own property tax rates within broad limitations. Majority votes of the local electorate were required for property tax increases above certain, state-specified levels. Districts with similar tax rates could have very different revenues per pupil because of differences in the assessed value of property in those areas or in the number of students they served. These differences became the subject of the *Serrano v. Priest* court case, which began in 1968.

Serrano v. Priest *challenged inequities caused by differences in property wealth*

The *Serrano* case was one of the first lawsuits to challenge the U.S. tradition of using property taxes as the principal source of revenue for public schools. Lawyers for the plaintiffs maintained that wealth-related revenue disparities among school districts violated the "equal protection" clause of the state constitution. In this case, wealth was a product of the assessed value of district properties divided by the number of schoolchildren in the district.

In 1971, the California Supreme Court ruled in *Serrano* that education was a "fundamental interest" of the state and remanded the case back to lower courts to determine whether the discrepancies described by the plaintiffs existed.

Anticipating an outcome that would demand that funding be equalized among districts, state leaders passed Senate Bill (SB) 90 in 1972, creating the "revenue limit" system that put a ceiling on the amount of

© Copyright 2009 by EdSource, Inc.

general purpose money each district could raise. (State and federal categorical funding—which is allocated based on specific students or programs—was not included in this equalization effort.) To achieve equalization, the Legislature then implemented a sliding scale of increases to revenue limits designed to bring lower-spending districts up to the level of higher-spending ones over time (labeled "leveling up").

A second case, referred to at the time as *Serrano II,* was settled in 1976. The court ruled that the changes made with SB 90 were not enough. In 1977, the state passed Assembly Bill (AB) 65, which made further changes in the system using a "power equalization" plan that would redistribute state aid based on differences in district property tax revenues per pupil.

With the passage of Proposition 13, the state took control of school revenues

Voters passed Proposition 13 nine months later, in June 1978. The initiative's supporters sought, among other things, to protect property owners by reducing and stabilizing their property tax obligations. Proposition 13 limited the property tax rate to 1% of assessed value and capped increases in assessed value at 2% or the percentage growth in the state's Consumer Price Index, whichever is less. (However, if owners sell or remodel their individual properties, the assessed value is raised commensurately, and the capped annual increases continue from the new assessed value.) Proposition 13's provisions wiped out more than half of local property tax revenues and therefore invalidated much of AB 65's financial reform, including power equalization.

The Legislature's "bailout" bill, SB 154 in 1978, retained the revenue limits but replaced most of the lost property tax dollars with money from the state budget to substantially mitigate districts' revenue losses. In the process, the state also took control of the distribution of property tax revenues among local governments. High-revenue districts received smaller revenue limit increases than low-revenue districts on a sliding scale. This "squeezing" minimized the sudden drain on the state's budget. AB 8, passed in the summer of 1979, continued the revenue limit system, including the squeeze mechanism for granting differential increases to districts based on their revenue limits. In 1983, the court ruled that the equity complaints brought in the *Serrano* case had been satisfied, and the case was officially closed.

The *Serrano* ruling combined with Proposition 13 to suppress school district revenue growth and virtually eliminate local control over most school funding. In the years since, California's investment in education, relative to the national average, has declined. In 2005–06, the per-pupil expenditure was $614 below the national average, and more recent funding cuts are likely to increase that gap dramatically. In addition, the fiscal stability of local school districts is damaged to the extent that their revenues are part of the state's often dysfunctional budget process.

School districts had control over local property taxes from 1910 until 1978

Senate Bill 154—passed in 1978 in response to the *Serrano v. Priest* court case and Proposition 13—ended local governments' control of property tax revenues that had been secured in 1910, when California voters approved the Separation of Sources Act. That measure granted local government exclusive control over property taxes, the main public revenue source at that time, according to a 2007 report from researcher Elisa Barbour.

Some districts are able to keep excess local property tax revenues

Under the current system, each district still has a revenue limit that is based on the formula the state first created in 1972, but which has been modified repeatedly since. For each district, that formula determines the amount of general purpose funding it receives per student (based on average daily attendance).

Revenue limit funds are a combination of local property taxes and state funds. The property taxes are allocated to schools first, then the state makes up the difference. Some districts, however, have local property taxes that exceed their revenue limit. Those districts are allowed to keep all their local property taxes, including the amount above the revenue limit. They are called "excess revenue" or "basic aid" districts.

Fluctuations in state funding and local enrollments mean that the roster of excess revenue districts shifts from year to year. In a typical year, at least 60 districts fit this description, many of which have a very small number of students. For some, the amount of property tax per pupil is quite substantial. In 2008–09, reductions in revenue limit funding pushed many more districts into excess revenue status. For those districts, the property taxes they receive in excess of their revenue limit will likely be quite modest.

© Copyright 2009 by EdSource, Inc.

Policy changes could provide more local revenue control

Researchers, analysts, and local public officials have discussed several state policy changes that—if implemented by Sacramento decision-makers—would strengthen local communities' ability to raise school revenues. A major examination of the options available was undertaken by the Finance and Facilities Working Group that was part of the Legislature's Master Plan for Education effort, completed in 2002. More recently, a 2007 report from the Governor's Committee on Education Excellence included an appendix devoted to the question.

Both documents argued that when taxpayers are directly assessed for their schools, they pay more attention to how well those schools are performing. Both also used the same basic parameters for evaluating the various local revenue options that might be possible. These included:

- the amount an option would yield,
- its stability as a revenue source,
- whether it was deductible for federal tax purposes, and
- the ease with which an option could be implemented.

Another consideration was whether the tax was progressive, meaning that those with a greater ability to pay are charged a higher amount. And finally, both reports addressed the potential inequities that could be caused by giving districts a more robust local revenue option. Districts would vary in their ability to adopt a local option and the same level of "tax effort" can result in different levels of additional revenues, particularly revenues per pupil. Both reports pointed to the need for the state to provide some additional funds in order to equalize yields among local communities.

The state could allow school districts to create a local income tax

Within the current parameters of state law, California lawmakers could allow school districts to ask local voters for an add-on to their income tax to support their schools. According to the Committee on Education Excellence report, five other states allow this—Maryland, Iowa, Kentucky, Ohio, and Pennsylvania.

Income taxes in general have the benefit of being progressive. They would also be deductible from federal income taxes so that the federal government would effectively help subsidize the additional revenues. However, because income taxes fluctuate with the condition of the economy, they are not one of the more stable sources of revenue, particularly when an income tax system is largely dependent on high-income earners like California's system is.

Although this option has been discussed occasionally, it has not gained substantial traction. It also raises several questions. What would various tax rates yield for schools? How would the yield-per-student vary among districts? What administrative issues might a local income tax raise?

Some policy options would require amending Proposition 13

Although Proposition 13 has long been thought of as politically sacrosanct, more discussions about revising it are occurring amid the state's ongoing budget woes. Proposition 13 has had a number of unintended consequences that play a role in the state's current revenue shortfalls. Those include a state tax base that relies on more volatile income taxes and a state-controlled and funded school finance system.

Three possible amendments to Proposition 13 have received the most attention. All of them would require voter approval. One would make it easier for districts to pass parcel taxes and, perhaps, sales taxes. The other two would adjust current limits on the statewide ad valorem tax rate, either for all properties or just for commercial properties. For either of the latter two to make a difference for local school districts, the revenues raised would need to be outside of districts' regular revenue limit allocations from the state.

Reduce the two-to-one approval threshold for parcel taxes and/or sales taxes

Requiring a two-thirds vote to approve parcel and sales taxes creates a high hurdle for districts to clear. Parcel tax history illustrates the point. Of the 486 parcel tax elections held between 1983 and June 30, 2009, 261 (54%) have passed. In the past two years—when schools have had to absorb substantial state funding cuts and delays—communities have passed 53 of 74 parcel tax measures, achieving a 72% passage rate. If a 55% supermajority option had been available for the past two years, the success rate would have been 96%. Had a simple majority been required, the approval rate would have been 99%.

The Legislature has periodically considered but failed to pass a constitutional amendment that would lower the parcel tax approval threshold to 55%, the same as facilities bond measures. If two-thirds of the Assembly and the Senate approves a current proposal, the state's voters would then decide by majority vote whether to change the threshold.

© Copyright 2009 by EdSource, Inc.

However, if the measure were to pass in the Legislature and the public subsequently voted to lower the threshold, the hypothetical success rates discussed above would not necessarily carry over to the state as a whole. Additionally, flat-rate parcel taxes can result in relatively low revenues because the rate must be kept affordable for owners of the lowest-value parcels. The increased use of per-square-foot rates mitigates this to some degree. However, such rates are currently the subject of a legal challenge in the Alameda Unified School District. On the other hand, it is also possible that more districts would be willing to invest energy and resources into passing a parcel tax if the chances of success improved.

Allow local communities to assess property above the Proposition 13 limits

In its final report to the Legislature, the Master Plan Working Group recommended a constitutional amendment that would allow local school districts to propose to their voters a property tax override—above the Proposition 13 limit—for the exclusive use of public schools. The recommendation also called on the state to provide funding to ensure a minimum yield on each district's tax effort.

The Governor's Committee on Education Excellence made this option more concrete by exploring the revenue implications if districts were allowed to levy a 0.1% additional property tax, effectively bringing the tax rate to 1.1% of assessed valuation. Based on 2004–05 data, this tax would yield an average per-pupil revenue of $706, according to the committee. Variations among districts would be dramatic, however. Among the 20 largest school districts, the per-pupil amounts would range from $100 in Fontana Unified to $1,950 in San Francisco. The report discusses at length the mechanisms the state could use to ensure a guaranteed tax yield and perhaps place a cap on the funds high-property-wealth districts could generate.

Reform how commercial property is taxed

Another aspect of Proposition 13 recently raised among proponents of reform is the handling of commercial and industrial property. Some reformers are advocating a change that would result in higher property tax rates for commercial-industrial property owners. The proposals tend to focus on three possible mechanisms to increase commercial-industrial property tax revenues:

- a "split roll," which would maintain the current property tax limits for residential properties but reassess commercial-industrial property every year;
- a "split rate" so that commercial-industrial properties would be taxed at a rate higher than 1%; and
- a "split inflation rate," meaning that the tax rate for commercial-industrial properties could grow more than 2% annually with no requirement to reassess each year.

Presumably, school districts might be allowed to use one of these mechanisms locally instead of them being implemented statewide. The benefit to school agencies would greatly depend on the concentration of commercial-industrial property in a district. Those in primarily residential areas would not benefit much from such a change. Important questions include which districts would benefit from this, what costs the state would incur if it provides some equalization funding, and what might be the negative effects on business. The political feasibility of changing Proposition 13 in a way that affects only business—rather than all property owners—is also an open question.

Local revenue options should be part of California's state budget reform debate

California's leaders are under increasing pressure to fix a budget process and finance system many see as dysfunctional. Several state groups are examining the feasibility of rewriting the state's constitution. And at the end of September, the governor is expecting tax reform recommendations from an advisory group called the Commission on the 21st Century Economy.

Ultimately, the state cannot fix its fiscal woes without addressing funding for public education. The amount of state money that goes to schools is too great to ignore. And if the state wants a qualified workforce to sustain California's economic viability, continuing to cut education funding is counter-productive. That is to say nothing of long-standing hopes that California could increase its education investment.

The question of whether communities should have greater ability to raise revenues for their local schools, and under what conditions, ought to be considered as part of the larger financial discussion. That will require grappling with issues that are complex and politically sensitive. One is the question of state versus local control of public schools and their revenues. Another is the differential ability of high-wealth communities to support their schools and what actions can and should be taken to equalize the revenue-raising ability of low-wealth communities.

© Copyright 2009 by EdSource, Inc.

The results of local bond and parcel tax elections provide good evidence that Californians want better and more stable funding for their local schools and would be willing to tax themselves if they believed the additional revenues would directly benefit their communities. Current law—in particular the provisions voters approved in Proposition 13—makes that largely impossible today.

It remains to be seen whether state law could be changed in a way that would return some meaningful revenue-raising power to local school districts, protect the equity interests of low-income communities, and garner the support of enough Californians to change the status quo. Current interest in a major overhaul of state finances provides a unique opportunity to at least have the discussion.

To Learn More

Links of interest

- For public opinion research related to school funding in California, consult the Public Policy Institute of California: www.ppic.org/content/pubs/survey/S_409MBS.pdf
- For a list of education foundations in California, see the California Consortium of Education Foundations website: www.cceflink.org
- For school district and state revenue data, go to the Ed-Data Partnership website, www.ed-data.org, and see financial reports.
- To learn more about efforts to initiate a Constitutional convention, see: www.repaircalifornia.org

Works consulted for this report (partial list)

Barbour, E. *State-Local Fiscal Conflicts in California: From Proposition 13 to Proposition 1A.* Public Policy Institute of California. December 2007. www.ppic.org/content/pubs/op/OP_1207EBOP.pdf

Cal-Tax 2008: Proposition 13 Revisited. June 2008. CalTax. www.caltax.org/Prop13Revisited.pdf

Duncombe, W. & Yinger, J. *Understanding the Incentives in California's Education Finance System.* January 2007. Go to: http://irepp.stanford.edu, click on Publications, then Getting Down to Facts Project

Finance and Facilities Working Group K-12 Education: Final Report. Joint Committee to Develop a Master Plan for Education–Kindergarten through University. March 2002. http://searchworks.stanford.edu/vufind/Record/4766601

Goldfinger, P.M. & Kubinec, J. *Revenues and Revenue Limits.* 2007. School Services of California, Inc. www.sscal.com/publications.cfm

Governor's Committee on Education Excellence. *Students First: Renewing Hope for California's Future*–Technical Report, Appendix E. November 2007. www.everychildprepared.org/docs/appendixe.pdf

Kirst, M. *Using an Equalized Local Income Tax Surcharge for Education: Restoring Local Control.* 1994. Policy Analysis for California Education. http://pace.berkeley.edu

Perry, M. *Rethinking How California Funds Its Schools.* EdSource. May 2004. www.edsource.org/pub_rethink5-04.html

Sonstelie, J. & Richardson, P., editors. *School Finance and California's Master Plan for Education.* Public Policy Institute of California. 2001. www.ppic.org/content/pubs/report/R_601JSR.pdf

Acknowledgments

This report was researched and written by:
Mary Perry
Brian Edwards

With research support from:
Julian Leichty

EdSource
Clarifying Complex Education Issues®

Trish Williams
EdSource Executive Director

2009–10 EdSource Board of Directors

Davis Campbell, President
President, California School Boards Association Governance Institute

Lawrence O. Picus, Vice President
Professor, Rossier School of Education, University of Southern California

Kenneth F. Hall, Fiscal Officer
Executive in Residence, University of Southern California

John B. Mockler, Secretary
President, John Mockler & Associates, Inc.

Susan K. Burr
Executive Director, California County Superintendents Educational Services Association

Carl A. Cohn
Clinical Professor of Urban School Leadership, Claremont Graduate University

Reed Hastings
CEO, Netflix, Inc.

Gerald C. Hayward
Co-Director (Retired), Policy Analysis for California Education

Barbara Inatsugu
Program Director for Education, League of Women Voters of California

Santiago Jackson
Director (Retired), Office of Legislative and Governmental Affairs, Los Angeles Unified School District

Loren Kaye
President, California Foundation for Commerce and Education

Carol Kocivar
President-Elect, California State PTA

Kelvin K. Lee
Superintendent (Retired), Dry Creek Joint Elementary School District

Amado M. Padilla
Professor, School of Education, Stanford University

DeRionne Pollard
President, Las Positas College

Don Shalvey
Senior Program Officer, Bill & Melinda Gates Foundation

Michael Stone
Teacher, Aliso Viejo Middle School

Gloria Taylor
Co-President, American Association of University Women–California

© Copyright 2009 by EdSource, Inc.

Please call or e-mail EdSource for reprint or dissemination permission.

EdSource ■ 520 San Antonio Rd, Suite 200, Mountain View, CA 94040-1217 ■ 650/917-9481 ■ Fax: 650/917-9482 ■ edsource@edsource.org
www.edsource.org ■ www.ed-data.org

Selected Readings on California School Finance

Chapter 5
Comparing California

EdSource®
Clarifying Complex Education Issues®

SEPTEMBER 2010

REPORT

How California Ranks

Public education supports California's economic growth and creates opportunities for the state's youth. Given that, it is important for Californians to understand how much the state is investing in its schools and how that money is being spent. Comparing California with the nation and other similar states does not indicate whether the state is spending enough, but it does provide a perspective.

A wealth of data is available for comparing California's investment in public education with that of other states. State officials typically submit data to the National Center for Education Statistics (NCES) and the National Education Association (NEA), which then publish the data in annual reports. Many organizations interpret these data, choosing among dozens of variables, selecting years to report, and deciding which numbers tell their story best. Amid the cacophony of education facts that result, almost any advocacy group can find a way to present the data that supports their particular hypothesis about this state's capacity to support its schools, the sufficiency of its investment, and how well schools spend the money they receive.

This report is EdSource's attempt to rise above the noise and describe how California ranks on crucial measures of its education investment.

EdSource thanks The James Irvine Foundation for its investment in our core work.

HIGHLIGHTS

EdSource examined the available data sources and interpretations with care and also consulted extensively with experts when we encountered questions or inconsistencies. Throughout this report, you will find straightforward explanations of what we found and—as necessary—notes about the data we chose and why we chose it. Based on our research, we feel confident in reporting the following:

California's public schools serve the country's largest student population, one that is quite diverse and faces substantial challenges. *(Page 3)*

California's effort to support its schools financially does not quite match its capacity. *(Pages 4–6)*

- The ratio of statewide personal income to the number of students was modestly above the U.S. average in 2007–08; and
- California ranked 14th among the states for the percent of personal income paid in taxes; but
- The percent of personal income that Californians devoted to K–12 schools was below the U.S. average.

California's per-pupil expenditure lags the national average, and the gap grows if labor costs are considered. *(Page 7)*

- In 2007–08, based on expenditures ("actuals") reported to NCES, California spent $9,706 per pupil, $591 less than the national average.
- That year California ranked 28th among the states in its per-pupil expenditures.
- When the expenditure numbers are adjusted for differences in labor costs (the major component in a cost-of-living comparison), California's rank falls to 43rd.

California's high labor costs and modest per-pupil expenditures mean that its school districts have low staff-to-pupil ratios compared with the country as a whole, with some staff categories particularly low. *(Page 8)*

- California school district offices operate with 40% of the administrators found nationally.
- California schools have about half as many counselors and a fifth as many librarians as is the norm in the United States as a whole.
- California high schools have only half as many teachers as are found nationally.

California school districts are for the most part similar to the rest of the country in their spending patterns, with about two-thirds of funds going to instruction. *(Page 9)*

These conclusions are largely based on data from the 2007–08 school year, the most recent year for which reliable data are available. Significant cuts to education in California and many other states that began in fall 2008 are not reflected in these figures or comparisons.

EdSource® is a not-for-profit 501(c)(3) organization established in California in 1977.
Independent and impartial, EdSource strives to advance the common good by developing and widely distributing trustworthy, useful information that clarifies complex K–14 education issues and promotes thoughtful decisions about California's public school system.

About the Data

Using averages to compare states can obscure important differences

- States are dramatically different in size, ethnic and socioeconomic characteristics, cost of labor, and in how they set policy, fund public education, and govern their schools.
- The data are not always consistent from one state to another. Differences can occur in what data state officials collect, how they collect it, and in their interpretation and reporting.
- Averages, while often illuminating, can mask variations that are informative and important to the accuracy of the picture that they paint. For example, expenditures of school districts in the metropolitan areas of a state may not have the same purchasing power as the spending of districts in rural areas.
- Salary averages can reflect the changing characteristics of the workforce over time, particularly the addition of new teachers.

This report uses enrollment as opposed to average daily attendance

Although much of California's K–12 education funding is based on average daily attendance (ADA) as opposed to enrollment, this report uses fall enrollment as the count of students because states vary more in how they define ADA. Fall enrollment is fairly uniformly defined as the number of students registered with a school district, generally as of early October.* Enrollment is larger than ADA because ADA does not count students who miss school. In California, this includes absences due to illness.

This report focuses on expenditures versus revenues

When per-pupil dollar amounts are discussed in this report, the focus is on expenditures—what the state and its schools spent providing K–12 services—as opposed to revenues, the amounts that school agencies received from local, state, and federal sources. Expenditures indicate more precisely the level of instructional and support services that students receive in a given year.

This report relies on both NEA and NCES financial data

All state school expenditure data reflected in this report come from state departments of education, including the California Department of Education (CDE). The CDE bases its expenditure information on unaudited reports from local educational agencies. These reports are known as "actuals" because they indicate what districts actually spent in a given year as opposed to what they planned to spend that year. For a few districts, the auditing process leads to substantial corrections; but for the state as a whole, the unaudited data are considered accurate.

The National Education Association (NEA) annually publishes these data and state-to-state comparisons in its *Rankings & Estimates*. The U.S. Department of Education's National Center for Education Statistics (NCES) regularly publishes expenditure data as well.

In this report, EdSource uses NCES figures for per-pupil expenditures because they reflect local agencies' actual expenditures in 2007–08. This is in contrast to NEA, which has published *estimated* expenditures for 2007–08 based on 2006–07 actual expenditures, adjusted to reflect state-level budget decisions. In addition, EdSource uses NCES staffing data because it is more detailed than NEA's.

However, EdSource uses NEA's 2006–07 figures for measures of "capacity" and "effort"—a state's financial ability to fund K–12 education and its actual education funding in relation to its citizens' personal income—because such compiled data are not readily available from NCES.

This report includes only operating costs

Some analysts debate the specific expenditure categories that should be included in per-pupil spending comparisons. This report focuses on the operating costs of K–12 schools (including charter schools) and the central offices of districts and county offices of education, consistent with both NCES and NEA. Different organizations that report on this topic define operating or "current" expenditures slightly differently.

The NCES figures include the following major categories:

- salaries and benefits for school personnel;
- student transportation;
- school books and materials;
- energy costs;
- summer school and extended-year programs;
- before- and after-school programs;
- state retirement contributions;
- preschool and child development spending;
- expenditures on schools at state institutions (e.g., Division of Juvenile Justice schools and State Special Schools for the blind and for the deaf).

NEA data, which forms the basis of some recent reports by other California organizations (and past EdSource reports), does not include preschool and child development spending or expenditures on schools at state institutions. And the NEA data for California includes a few items that NCES does not—most program-administration costs of state departments of education; the federal E-rate subsidy, which helps schools and libraries access the Internet at a discount; and spending on professional development for K–12 teachers that colleges and universities provide.

Both NCES and NEA exclude adult education, capital outlay, and debt service because those items are separate from, or only indirectly related to, the annual cost of educating K–12 students.

*NCES includes students attending pre-kindergarten programs in school districts in its enrollment figures. Although California does not report a pre-kindergarten figure to NCES, the organization imputes one for the state—in this case, 68,002 for 2007–08. The inclusion of those young students in enrollments affects per-pupil expenditure computations.

© Copyright 2010 by EdSource, Inc.

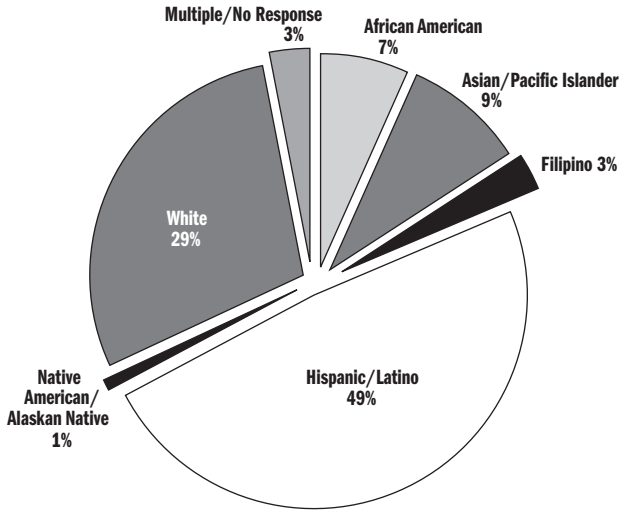
California's K–12 public school students are diverse and face obstacles to academic success

With more than 6.2 million K–12 students in its public schools, California educates far more young people than any other state—about 1.5 million more than Texas and about 3.5 million more than either New York or Florida.

The Golden State's K–12 student population is also one of the most ethnically diverse. Figure 1 shows the racial and ethnic distribution in 2007–08, the year on which this report generally focuses.

figure 1 **California's K–12 student population is diverse, though almost half of the state's students are Hispanic/Latino**

Racial/Ethnic Distribution of California's K–12 Public School Students, 2007–08



Note: Percentages do not sum to 100% due to rounding.

Data: California Department of Education (CDE) EdSource 9/10

More than half of the state's students are from low-income families, and many are English learners

About half of the state's students come from homes where English is not the first language. Spanish is by far the most common non-English home language, but dozens of others are spoken in homes throughout the state.

About one-quarter of California's students are classified as English learners, the highest proportion in the country.[1] More than 40% of kindergarten students enter school needing to learn English.

With slightly more than half of its students eligible for free or reduced-price meals, California also has one of the highest percentages of low-income students in the country. Florida, New York, and Texas all have proportionally fewer students eligible for the meals program, with the gap ranging from three to eight percentage points.

California reported that 10.8% of all students received Special Education services in 2007–08, compared with 13.4% nationally. California's relatively low figure has remained fairly constant over many years, but opinions vary regarding what combination of policies and practices best explain the variation from national norms.[2]

Like other states, California uses federal funds and a portion of its own funds to address the needs of students who have to learn English, live in low-income households, or qualify for Special Education services. However, as will be described later, school districts in California have, on a per-pupil basis, fewer total resources to draw from than their counterparts in many other states.

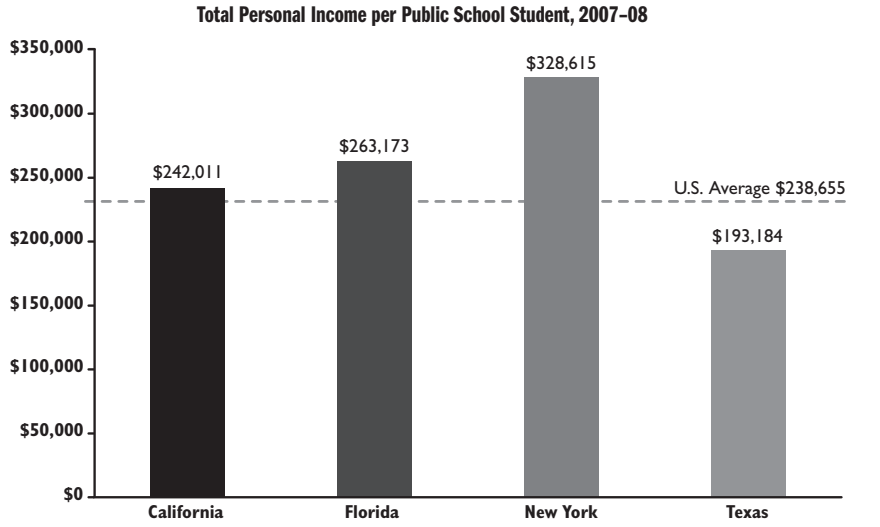
In 2007–08, California had:

- *the highest percentage of English learners in the country (25%), and*
- *a greater proportion of students eligible for free or reduced-price meals than Florida, New York, or Texas (slightly more than half).*

© Copyright 2010 by EdSource, Inc.

California's effort to support K–12 schools financially does not quite match its capacity

figure 2 **In 2007–08, California's capacity to fund K–12 schools was slightly above the U.S. average, but below Florida and New York**



Data: National Education Association (NEA) EdSource 9/10

California's financial effort on behalf of K–12 education fell before Proposition 13 was passed in 1978

Many people assume that California's below-average effort on behalf of public education stems from the reduction of property taxes that Proposition 13 began in 1979. But the decline in the percent of personal income contributed to K–12 education began before that measure passed.

In 1972, Californians spent $56 of every $1,000 in personal income on public K–12 education. However, in that same year, policymakers in Sacramento placed a ceiling on the amount of tax money each district could receive per pupil. The establishment of "revenue limits" was in response to a looming settlement of the *Serrano v. Priest* court case, in which plaintiffs argued that the existing system of primarily locally funded school districts resulted in wealth-based disparities in funding. In an attempt to level up funding across districts, the state began providing greater increases to low-spending districts than to high-spending districts. In 1976, when the state Supreme Court ruled in the *Serrano* case that school districts' general purpose funding had to be roughly equalized, the state role in funding schools increased further, and local property taxes played a smaller part. Proposition 13 drove local contributions down even further by reducing property taxes dramatically and limiting local communities' ability to raise revenues for public services.

How much can and should California invest to appropriately educate its large and diverse student body? One way to answer that question is by comparing California's commitment to education spending with the nation as a whole and the handful of states that are most like it in size and economic and ethnic diversity. Commitment in this report is gauged by the combination of a state's *capacity* to fund education and its *effort* to do so.

The state's capacity to fund K–12 education was slightly above the national average

A state's capacity to fund its schools can be measured by the total of its residents' personal income divided by the number of K–12 students. The National Education Association (NEA)—which represents teachers and educational support personnel—uses data from the Bureau of Economic Analysis to compute this information. California's capacity in 2007–08 was $242,011 in personal income per student. This amount was $3,356 more than the national average, giving California a rank of 20th. California's capacity has stayed close to the national average during the past decade.

Between 2008 and 2009, California saw a decline in personal income of 2.4%—the first year-to-year decrease in the post-World War II period. With personal income falling and student enrollment staying roughly constant, California's capacity has undoubtedly declined. Given the state's particularly high levels of unemployment, this decline in capacity has likely been more acute than in the nation as a whole.

California ranked 20th in capacity—total personal income statewide divided by the number of K–12 students—in 2007–08.

© Copyright 2010 by EdSource, Inc.

Californians pay slightly more than the national average in state and local taxes

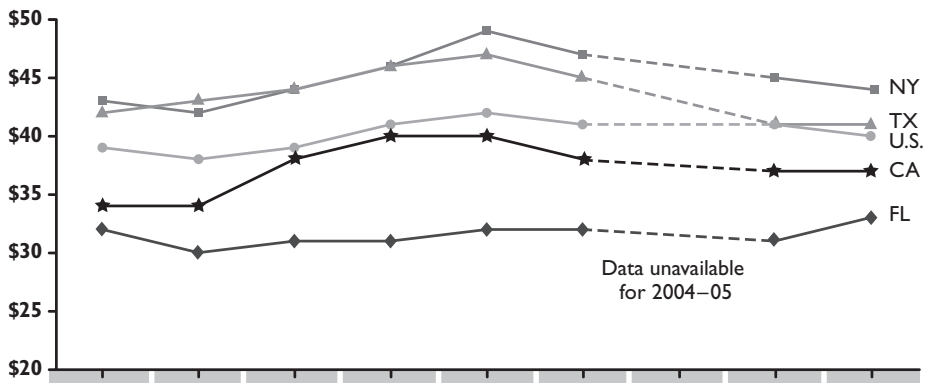
Education is one of several public services paid for through tax revenues. The level of effort toward education depends on both a state's willingness to tax itself to provide public services and on its priorities.

The amount of state and local tax revenue relative to personal income is a good indicator of a state's willingness to tax itself. From 1998–99 through 2006–07, California has been slightly above average in the amount of taxes it has collected relative to personal income. In 2006–07, Californians contributed a total of 11.4% of their personal income toward a variety of taxes, as compared with 11.0% in the country as a whole. That year, the Golden State ranked 14th, ahead of Texas and Florida but well below New York.

According to the Center for Continuing Study of the California Economy, this state's overall above-average tax rate results from a mixture of high and low taxes. For example, California has comparatively high rates for corporate income and sales taxes. The personal income tax is both high and low in that high earners pay a high rate while low earners pay a low rate. Part of the reason that Californians as a whole pay an above-average portion of their income in taxes occurs because this state has an above-average share of high-earning residents who pay substantial taxes on stock option and capital gains income.

On the low side are property taxes, which California voters constrained by passing Proposition 13 in 1978. That measure limits property taxes to 1% of assessed value, and it caps annual increases in assessed value at 2% or the percentage growth in the Consumer Price Index, whichever is less. Proposition 13 reduced property tax revenues by about 60% the year after it was passed, which solidified a shifting of primary responsibility for school funding from local to state revenue sources. In 2006–07, the most recent year for which data are available from the National Center for Education Statistics (NCES), local property taxes comprised 21% of all K–12 education funding in California, compared with 40% to 45% in Florida, New York, and Texas.

figure 3 **California spends a smaller portion of its residents' income on K–12 schools than the national average**



	1998–99	1999–00	2000–01	2001–02	2002–03	2003–04	2004–05	2005–06	2006–07
California's Rank Among the States	45	40	34	32	32	33	N/A	41	39

Data: National Education Association (NEA) EdSource 9/10

But the monetary effort that Californians put toward education is below average

The percentage of their personal incomes that Californians devote to K–12 schools is below average despite having slightly greater-than-average revenues to work with. Between 1998–99 and 2006–07, California never matched the national average on this measure of effort, ranking between 45th and 32nd. In 2006–07, California ranked 39th, spending $37 of every $1,000 in personal income on K–12 education. This amount was less than the national average of $40, Texas's $41, and New York's $44. In contrast, Florida spent only $33.

This state ranked 14th in 2006-07 in the percent of income paid toward a variety of taxes, reflecting:

- *comparatively high corporate income and sales taxes;*
- *income tax rates that are comparatively high for high earners and low for low earners;*
- *relatively low property taxes.*

© Copyright 2010 by EdSource, Inc.

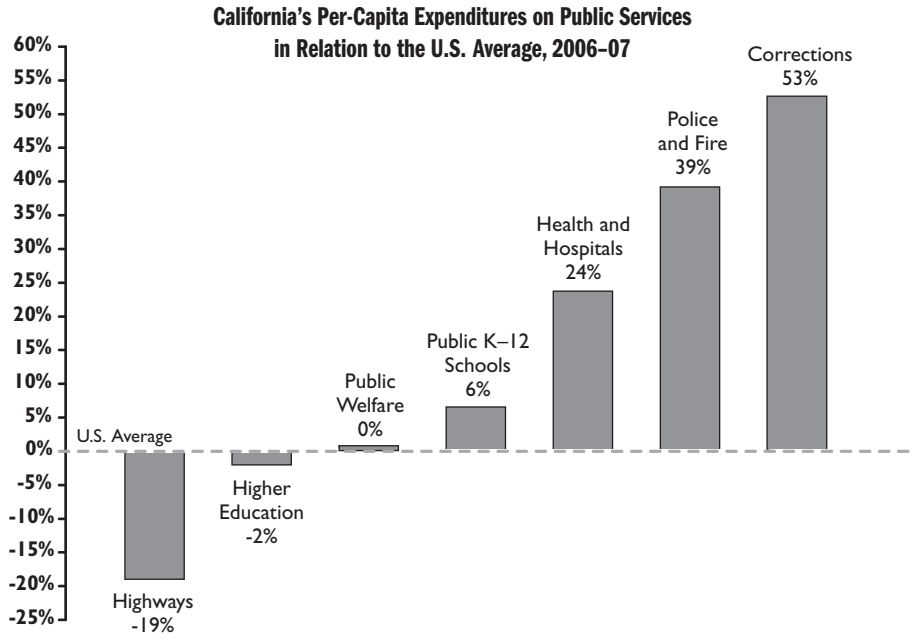
Another way to measure effort is to see how the state compares with the nation on education spending versus other public services

Californians pay more taxes than the national average, yet the state spends a smaller proportion of personal income on schools. So where do those tax dollars go? As Figure 4 shows, California spent—per capita—well above the national average on some other public services in 2006–07. Most notably, the state ranked third in spending on both corrections and police and fire protection. During the past 10 years, the percentages have varied, but the overall pattern has been similar. California's spending on corrections, police and fire protection, and health and hospitals has consistently been well above the national average in each area; public welfare and higher education spending was close to the U.S. average, and highway expenditures were below average every year.

On a per-capita (or per-resident) basis, the state's spending on K–12 education has been above the national average since 2001–02. This may appear to contradict the data in Figure 3, but in fact it does not because Californians have relatively high incomes. Each Californian can spend a below-average portion of his/her income on schools, as shown in Figure 3, and still spend more than the average per person in the rest of the country, as shown in Figure 4.

The data also seem to, but in fact do not, contradict Figure 5 (on page 7), which shows per-pupil expenditures. The above-average per-capita expenditure for K–12 schools shown in Figure 4 does not translate into above-average expenditures per student because California has a higher proportion of children to adults than most states. In other words, even though California spends more than the national average per capita on K–12 schools, the spending is spread over proportionally more students than in other states.

figure 4 **On a per-capita basis, and compared with national averages, California spends more on some other public services than on education**



Data: National Education Association (NEA) EdSource 9/10

© Copyright 2010 by EdSource, Inc.

California's per-pupil expenditure lags the national average, and the gap grows if the cost of labor is considered

Although the portion of personal income devoted to schools gives some indication of how much importance a state assigns to education, it does not show how much money is actually spent. For example, a wealthy state could provide a small *percentage* of income to education and yet its schools could still have a substantial *amount* to spend on students. However, if that same state had a relatively high percentage of young people, that substantial sum would be spread more thinly among its students. The average amount spent per pupil takes these differences into account and thus is the most commonly used proxy for comparing the resources each state devotes to educating young people.

In 2007–08, California's per-pupil spending—without regional cost-of-labor adjustments—ranked 28th

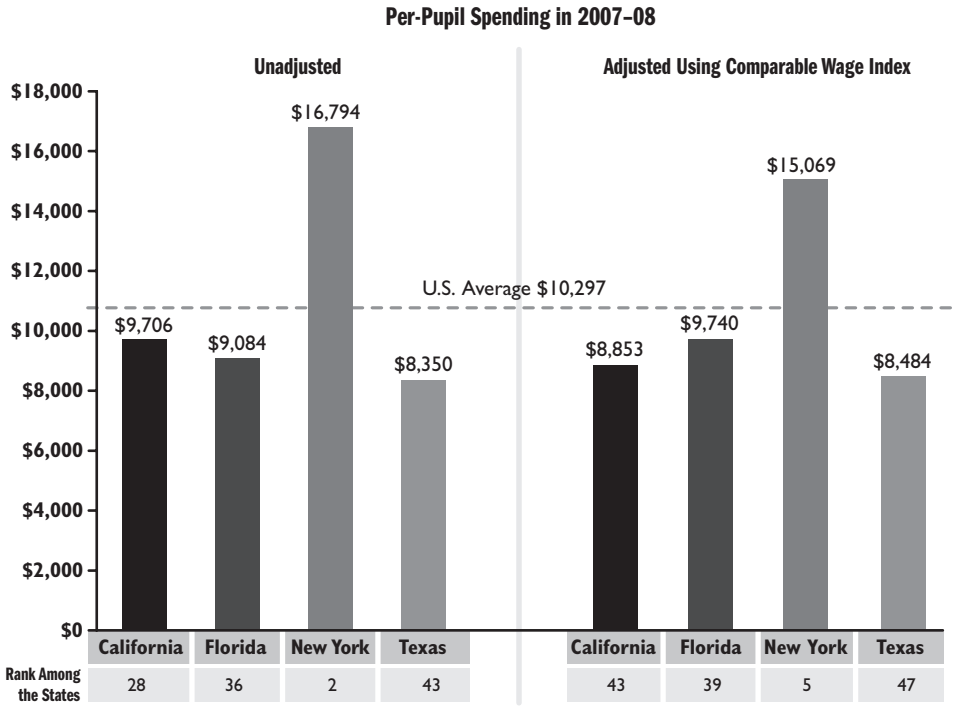
The average expenditure per pupil is an important indicator of a state's commitment to K–12 education, but it does not reflect the substantial variation in the cost of staffing and operating schools across the country. Expenditures can be reported with and without adjustments for that variation—in particular for labor costs.

California's unadjusted per-pupil expenditure has been below the national average for at least the past decade. In 1998–99, the state's spending was 89% of the average, and its rank was 33rd. The closest that California has come to the national average in recent years was in 2001–02, toward the end of the dot-com bubble. That year, the state's per-pupil expenditure was 96% of the national average, and its rank was 25th.

The left side of Figure 5 displays unadjusted expenditures for 2007–08. California spent $9,706 per pupil (94% of the national average), which earned the state a rank of 28th. This expenditure was:

- $7,268 less than New York, which ranked second. (New Jersey was first with $17,620.)
- $591 less than the national average.
- $622 more than Florida, which ranked 36th.
- $1,356 more than Texas, which ranked 43rd. (Utah ranked last with $5,978.)

figure 5 **When regional cost-of-labor differences are accounted for, California's per-pupil expenditure is even further below the national average, and its ranking drops dramatically**



Data: National Center for Education Statistics (NCES) and Professor Lori Taylor, Texas A&M University

EdSource 9/10

Since 1999–2000, the relative placement of these states' per-pupil expenditures has been consistent, except that Texas outspent Florida until 2005–06.

The adjusted ranking is 43rd

When the figures for 2007–08 are adjusted based on the average salary costs in each state, the rankings change, especially for California. Professor Lori Taylor of Texas A&M University has developed a Comparable Wage Index (CWI) to take regional salary variation into account. (*Education Week* uses the CWI in its annual "Quality Counts" publication.) That index compares the wages of college-educated, full-time workers in noneducation fields in each state. The CWI is used to measure variation in salary costs and assumes that school districts' personnel costs are affected commensurately. According to the Ed-Data Partnership website, for which the CDE provides data based on district reporting, 80% of districts' spending is for labor costs. In 2007–08, certificated and classified staff salaries made up 65% of districts' expenditures, with employee benefits comprising an additional 15%. The fact that salary costs comprise a large portion of expenditures makes the CWI a reasonable, albeit imperfect, way to account for cost differences among states.

Using state-level CWI data, EdSource has computed adjusted 2007–08 per-pupil expenditures and corresponding rankings for California and the three other large states. With those adjustments, California's per-pupil expenditure of $9,706 falls to $8,853, and its ranking of 28th falls to 43rd.[3] The rankings of the other three large states also fall, but by only three or four places. In the adjusted rankings, Vermont placed first with an adjusted per-pupil expenditure of $16,892, but Utah remained in last place with an adjusted figure of $6,523.

© Copyright 2010 by EdSource, Inc.

This state's high cost of labor and modest per-pupil expenditures lead to fewer adults in California schools

The cost of labor plays an important role in staffing levels. California's high cost of labor means that school districts must pay teachers and other educators relatively high salaries compared with those in other states. California has consistently ranked at or near the top in average teacher salary. For example, California ranked first in 2007–08 with an average salary of $65,808, according to NEA. New York was a close second with an average of $65,491, just $317 less. The national average was $52,800. Of course, California teachers' salaries do not go as far as the same pay would in other states. When California's average teacher salary is adjusted using the Comparable Wage Index discussed on page 7, it falls to $60,020, somewhat closer to the national average.

Average salaries for other certified education employees such as principals, counselors, and district administrators are not as readily available for comparisons. However, it is reasonable to assume that they would follow generally similar patterns.

This state's relatively high salaries combined with below average per-pupil spending translate into staff-to-pupil ratios that are among the worst in the nation. (See Figure 6.) California school and district employees are responsible for more students than their counterparts in other states. During the past decade, California has consistently ranked among the bottom three states in total staffing ratios, according to data from NCES. In some employee categories, California is especially poorly staffed. For example, this state's high schools have about half as many teachers on a per-pupil basis. And a California school district with 10,000 students would typically have five district officials/administrators and two librarians, while the average same-sized district in the nation as a whole would have 12 officials/administrators and 11 librarians.

figure 6 | **California's staffing ratios ranked at or near the bottom in nearly every category in 2007–08**

Ratio of Staff to 1,000 Pupils by Position, Fall 2007–08	California Rank in U.S.	U.S. Ratio	California Ratio	Percent of U.S. Ratio
Total staff to students	49	128.1	93.2	73%
All professional (certified) staff to students	50	72.1	52.3	73%
Total district staff (including classified staff)	37	6.4	5.3	83%
District officials/administrators only	47	1.2	0.5	40%
Total school staff (including classified staff)	50	96.5	71.0	74%
Certified school staff only	50	70.9	51.9	73%
School principals & assistant principals	48	3.2	2.3	72%
Guidance counselors	50	2.1	1.2	58%
Librarians	51	1.1	0.2	18%
All teachers	50	64.5*	48.1*	75%
Elementary teachers (grades 1–8)	33	49.8	48.4	97%
Secondary teachers (grades 9–12)	51	83.9	42.8	51%

*These numbers translate into a student/teacher ratio of 20.8 students to 1 teacher for California and 15.5 to 1 for the entire United States. Only Utah has a higher student/teacher ratio than California.

Notes: The numbers in this table are based on fall enrollment data and include pre-K public school students and their teachers. NCES estimated that there were 68,002 pre-K students and 4,110 pre-K teachers in California in 2007–08. If the pre-K students and teachers are not included, California's student/teacher ratio is still 20.8.

The District of Columbia is included among the states.

The "Total staff" row includes all district and school staff plus those who fall under the NCES category "All Other Support Staff."

National Center for Education Statistics (NCES) Common Core of Data, 2007–08; accessed 12/1/09. EdSource 9/10

Only in the category of elementary school teachers did California achieve a roughly middle-of-the-pack ranking in 2007–08. Although staffing data on 2008–09 and 2009–10 are not yet available, California's ranking for elementary school teachers will likely fall. Beginning in 2008–09, the state substantially relaxed the financial penalty for not maintaining a 20-to-1 pupil-teacher ratio in K–3 classes. With state incentive funding not covering the entire cost of maintaining that ratio, many districts have decided to let class size in the early grades increase. The extent to which California's ranking for elementary teachers will fall depends on the degree to which other states are also allowing class sizes to grow in response to their own fiscal troubles.

- *At $65,808, California's average teacher salary was the highest in the nation in 2007–08.*
- *Adjusted for labor costs (using the Comparable Wage Index), California's average teacher salary falls to $60,020, somewhat closer to average, but still second highest.*
- *California ranked 50th in the ratio of teachers to students.*

© Copyright 2010 by EdSource, Inc.

California school districts' spending priorities resemble those of districts in other large states

How school districts spend their funds receives nearly as much attention as the amount they spend. Unfortunately, however, the public does not always receive accurate information about what school agencies spend their money on. For example, some critics of education spending do not acknowledge all the factors that go into the schooling enterprise. To operate effectively, districts must pay for more than just teachers' salaries and benefits, textbooks, desks, and lab equipment. In addition to these classroom basics, schools need counselors, librarians, clerical staff, custodians, and principals if students are going to have a supportive, safe, disciplined environment in which to learn. Beyond those costs are facilities maintenance, energy bills, student transportation, and food service. Further, school districts' central offices fulfill important governance, administrative, and instructional functions.

Throughout the country, school districts spend their funds in relatively similar ways. About two-thirds of spending is related to instruction—mostly salaries and benefits for teachers and instructional aides, but other items as well. California spends a little more than the national average on instruction—67% versus 65.8%.[4]

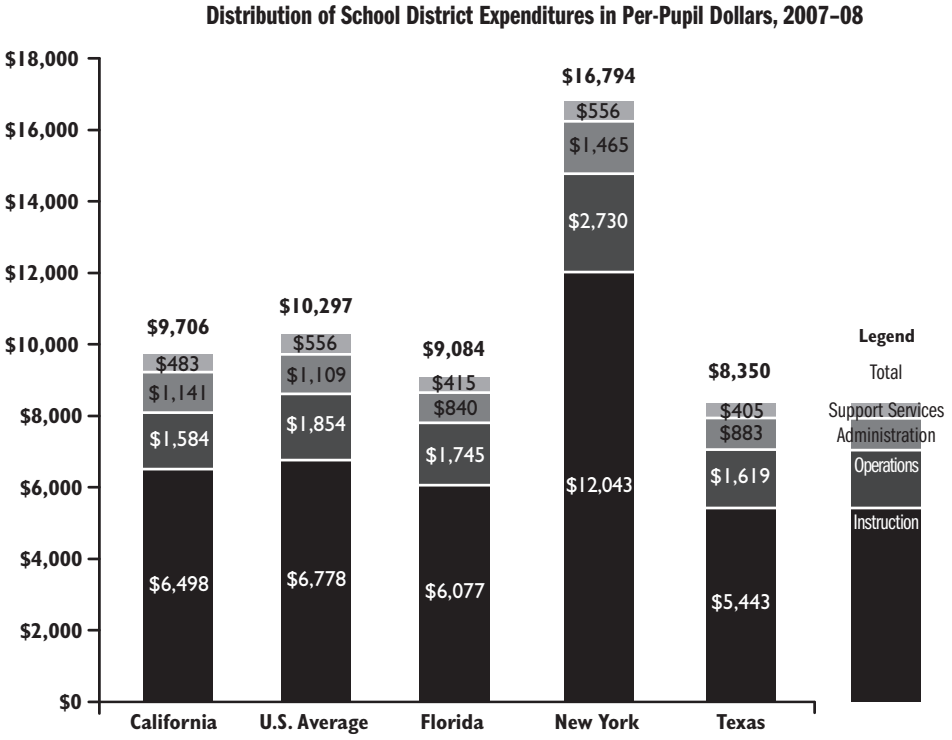
The next-largest expenditure is on operations—for example, keeping the physical structure habitable and in good repair, as well as food services, student transportation, and other activities. Here, California falls below the national average. In particular, student transportation makes up a smaller portion of expenditures in California than in any other state.

Next comes the cost of administration. Salaries and benefits of employees comprise the vast majority of these costs. With 11.8% of California's expenditures going toward administration, this state spends a larger proportion than the national average, which is 10.8%. This difference of one percentage point is relatively minor, particularly when viewed in terms of expenditures per pupil. Figure 7 shows that, on a per-pupil basis, California districts spend $1,141 on administration, while districts across the country spend an average of $1,109.

A breakdown of the spending categories included under administration indicates that California spends less than average on district administration (0.9% in California vs. 2.0% for the nation as a whole), but more than average on school administration (6.6% vs. 5.6%) and on other support services (4.2% vs. 3.2%). How spending on those latter two items can be higher than average when staffing ratios are substantially less than average is unclear. Personnel working in those categories may be paid relatively well in California, but the difference in pay between this state and the rest of the country is probably not great enough to explain the difference. Variations in how states categorize certain functions may also provide some of the explanation.

In addition, states spend a small portion of their budgets on student support services, such as counseling, health, and speech pathology services. In this category, California falls slightly below the national average.

figure 7 **As in other states, school districts in California spend the bulk of their funds on instruction and a small portion on administration**



Student support services (5% of California's spending in 2007–08) includes attendance, counseling, health, speech pathology, and other services.

Administration (11.8% in California) includes district and school administration and other support services.

Operations (16.3% in California) includes maintenance, student transportation, food services, and enterprise activities.

Instruction and instruction-related spending (67% in California) includes classroom instruction (e.g., teachers and teaching assistants), libraries, in-service teacher training, curriculum development, student assessment, and instruction technology.

Note: For each state, the sum of the components may not equal the total indicated because of rounding.

Data: National Center for Education Statistics (NCES) EdSource 9/10

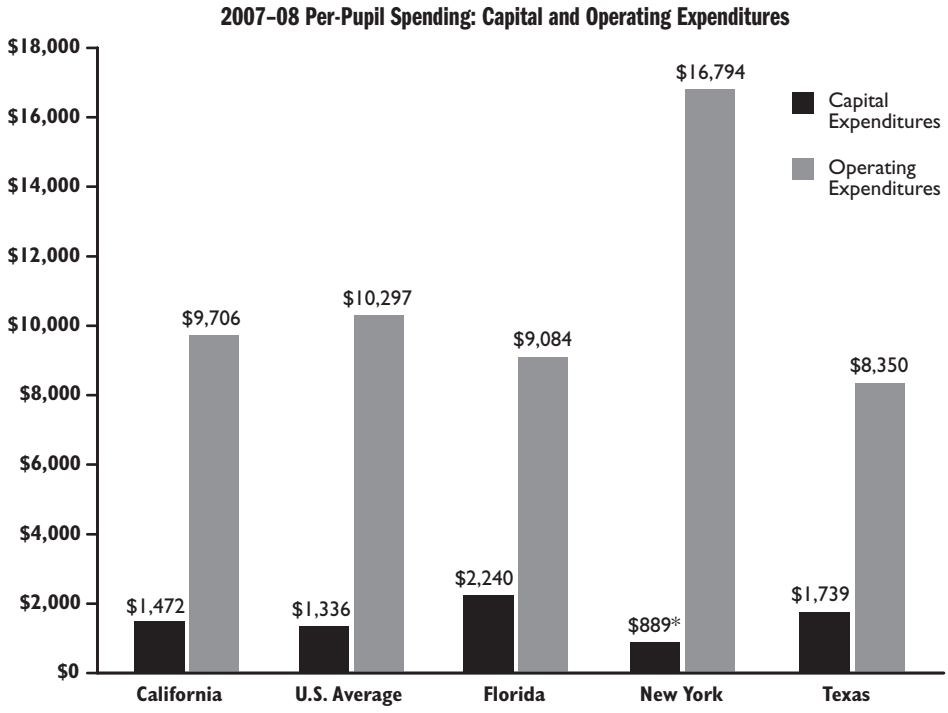
© Copyright 2010 by EdSource, Inc.

Some say that per-pupil expenditures should reflect spending on school facilities

Some analysts believe that capital outlay—spending on school facilities construction and modernization—should be included in total education expenditures. They say that if, for example, a state must build schools to accommodate a growing student body, such spending should be considered an education expenditure. Others point to the cyclical nature of these expenditures to justify their exclusion.

As previously stated, the per-pupil expenditure data in this report focus on operating expenses. However, capital outlay figures are provided in Figure 8 to give a sense of how spending on facilities related to spending on operations in 2007–08.

figure 8 **In 2007–08, California spent more per pupil on facilities construction and modernization than the country as a whole, but less than Florida and Texas**



* The U.S. Census Bureau reports a much higher capital outlay figure for New York, yielding a per-pupil expenditure of $1,762.

Data: National Center for Education Statistics (NCES) EdSource 9/10

© Copyright 2010 by EdSource, Inc.

Can California's investment in public K–12 education support continuing academic progress?

California's K–12 education system plays a vital role in this state's stability and prosperity, but the level of investment in that system depends partly on Californians' collective financial capacity and the value they place on education relative to other governmental services.

California is above average in capacity but below average in effort. Additionally, this state spends less on K–12 education than on many other public services, relative to the national average in each area. Given California's relatively large proportion of students and high cost of labor, this state's education expenditures yield staff-to-student levels that are at or near the bottom in nationwide rankings.

And those rankings do not reflect California's recent, large cuts in K–12 education spending. In 2007–08, California's funding of K–12 education from state General Fund, local property taxes, and ongoing federal programs totaled $56.8 billion. Two years later, that figure totaled $51.7 billion. Districts could tap into $2.3 billion in temporary federal stimulus funds and draw down their own reserves to try to fill the gap and meet ever-escalating academic performance targets, but many districts have had to reduce programs and lay off staff despite those relief measures. To prevent further education personnel cuts, the federal government is providing additional temporary funding through the August 2010 "edujobs" bill, from which California can expect to receive about $1.2 billion. After all of these temporary, limited funds are spent, California's local school agencies could see their expenditures drop substantially during the next few years. Only if the recovery from the "Great Recession" quickens considerably will school districts have a chance of maintaining their current spending and staffing levels.

And yet California's schools continue working to address the multifaceted needs of more than six million students and prepare them for the increasing demands of the global economy. As evidenced by scores on the California Standards Tests, student achievement has continually improved during the past eight years, but regular citizens and policymakers must confront the question of how to sustain those improvements as school resources dwindle.

To Learn More

EdSource's website provides an explanation of California's school finance system. www.edsource.org/school-finance.html

Information on student demographics, expenditures, and staffing ratios for individual school districts in California over time can be found on the Ed-Data website. www.ed-data.org

NCES has several collections of fiscal and nonfiscal data on the Internet and in bound volumes. One particularly useful feature on the web is the Build a Table tool that allows users to access multiyear *Common Core of Data* information. nces.ed.gov/ccd/bat

National Education Association provides a wealth of state rankings data in its annual publication, *Rankings and Estimates.* www.nea.org

EdSource's 2008 report, *How California Compares,* includes student achievement data and more detail about student demographics, along with school funding data. www.edsource.org/pub_cat.html

Education Week publishes an annual "Quality Counts" report that covers national education issues such as test performance, teaching quality, and school finance and how individual states compare on them. www.edweek.org/ew/qc/index.html

© Copyright 2010 by EdSource, Inc.

ENDNOTES

[1] English learner status is based on the results of a test of English proficiency, the California Standards Test in English language arts, and teacher and parent evaluations.

[2] California's particularly low level of Special Education identification has drawn research attention. The state uses a census-based approach to funding Special Education in contrast to an approach that bases funding on the number of students identified. Researchers disagree regarding the extent to which this approach per se explains California's low identification rate. California's identification rate has historically been below the national average. And even before the advent of census-based funding, allocations of Special Education funds in the state had largely been disassociated with the number of students identified for service due to a prior freeze on state funding that paid for new Special Education staff (expressed as "Special Education funding units").

[3] The CWI data come from *Washington Wages: An Analysis of Educator and Comparable Non-educator Wages in the State of Washington* (research files). Professor Lori Taylor, Texas A&M University. November 2008. Professor Taylor has computed an index of the wages of college-educated, full-time employees in noneducation fields in every state and the nation as a whole. In 2007, the index for California was 1.4860, and the index for the nation was 1.3553. One can translate those indexes to mean that California employers needed $10,964 to match the purchasing power of $10,000 in the nation as a whole (1.4860 ÷ 1.3553 = 1.0964). To adjust California's 2007–08 per-pupil expenditure, EdSource staff multiplied the nominal figure of $9,706 by the quotient of the 2007 National CWI ÷ California's 2007 CWI or 1.3553 ÷ 1.4860 and arrived at $8,853. (Mathematically, the computation is expressed as follows: $9,706 x [1.3553 ÷ 1.4860] = $8,853.) EdSource computed adjusted expenditures for the other states similarly using each state's index.

[4] Teachers and instructional aides constitute a subset of all certificated and classified staff. Thus, there is no inconsistency between the statement on page 9 that instruction and instruction-related costs—mostly salaries and benefits for teachers and instructional aides—account for about two-thirds of education expenditures in California, and the statement on page 7 that the salaries and benefits of *all* certificated and classified staff make up 80% of expenditures.

Acknowledgments

This report was written by: **Brian Edwards**

Data analysis by: **Ben Webman**

Data support by: **Julian Leichty**

Edited by: **Mary Perry**

EdSource® Clarifying Complex Education Issues®

Trish Williams
EdSource Executive Director

2010–11 EdSource Board of Directors

Carl A. Cohn, President
Co-Director, Urban Leadership Program, Claremont Graduate University

Lawrence O. Picus, Vice President
Professor, Rossier School of Education, University of Southern California

Kenneth F. Hall, Fiscal Officer
Executive in Residence, University of Southern California

Susan K. Burr, Secretary
Executive Director, California County Superintendents Educational Services Association

Davis Campbell, Immediate Past President
Senior Fellow, UC Davis School of Education

Reed Hastings
CEO, Netflix, Inc.

Gerald C. Hayward
Co-Director (Retired), Policy Analysis for California Education

Barbara Inatsugu
Program Director for Education, League of Women Voters of California

Santiago G. Jackson
President, Santiago G. Jackson, Inc. Education Consulting

Loren Kaye
President, California Foundation for Commerce and Education

Carol Kocivar
President-Elect, California State PTA

Kelvin K. Lee
Superintendent (Retired), Dry Creek Joint Elementary School District

John B. Mockler
President, John Mockler & Associates, Inc.

Amado M. Padilla
Professor, School of Education, Stanford University

Don Shalvey
Deputy Director, U.S. Program, Education, Bill & Melinda Gates Foundation

Michael Stone
Teacher, Aliso Viejo Middle School

Gloria Taylor
Co-President, American Association of University Women–California

© Copyright 2010 by EdSource, Inc. *Please call or e-mail EdSource for reprint or dissemination permission.*

520 San Antonio Rd, Suite 200, Mountain View, CA 94040-1217 ■ 650/917-9481 ■ Fax: 650/917-9482 ■ edsource@edsource.org
www.edsource.org ■ www.ed-data.org

EdSource® REPORT

Clarifying Complex Education Issues®

SEPTEMBER 2008

How California Compares

Demographics, Resources, and Student Achievement

For good or ill, there is clearly no state that compares with California. And no state will play as large a role in educating America's future citizens.

Seeing the dynamics that affect California's public schools through a national lens can sharpen our understanding of the challenges our schools face and the progress they are making.

The indicators included in this report provide some answers regarding how California compares with the rest of the country and the four next-largest states—Texas, New York, Florida, and Illinois—which are the most likely to face similar challenges. Of equal importance are the issues the data and analyses raise about the young people this state is educating, its commitment to its public schools, and its progress in helping its students succeed.

EdSource thanks the Bill & Melinda Gates Foundation, the William and Flora Hewlett Foundation, and the James Irvine Foundation for their investment in our core work.

HIGHLIGHTS

Demographics *(pages 2–8)*

- California has far more K–12 students than any other state.
- Its birth and immigration rate have slowed compared with fast-growing Texas and Florida.
- Its largest ethnic group is Hispanic/Latino, unlike most states.
- It has the highest percentage of children who live in a family in which the head of household has not completed high school.
- It ranks first by a wide margin in the proportion of children who speak a language other than English at home.

Resources *(pages 9–14)*

- California spent $614 less per pupil than the national average in 2005–06.
- That year it ranked in the middle in per-pupil expenditures among the five largest states.
- Its teacher salaries are among the highest even when adjusted for the cost of living.
- It ranks last in total school staff per student.
- After years of low investment, California spent more on school facilities from 2003 to 2006 than any other state.

Student Achievement *(pages 15–22)*

- California is one of three states that earns an "A" for its academic content standards from the Fordham Foundation.
- It has a higher-than-average proportion of schools not making adequate yearly progress as the state defines it under NCLB.
- Overall, it ranks among the lowest on NAEP (the "nation's report card"), but its scores are much closer to the U.S. average if English learners' results are excluded.
- Its high school students are more likely to take advanced placement classes and perform well.
- But its high school graduates are less likely to enroll directly in a four-year university.

EdSource® is a not-for-profit 501(c)(3) organization established in California in 1977.

Independent and impartial, EdSource strives to advance the common good by developing and widely distributing trustworthy, useful information that clarifies complex K–12 education issues and promotes thoughtful decisions about California's public school system.

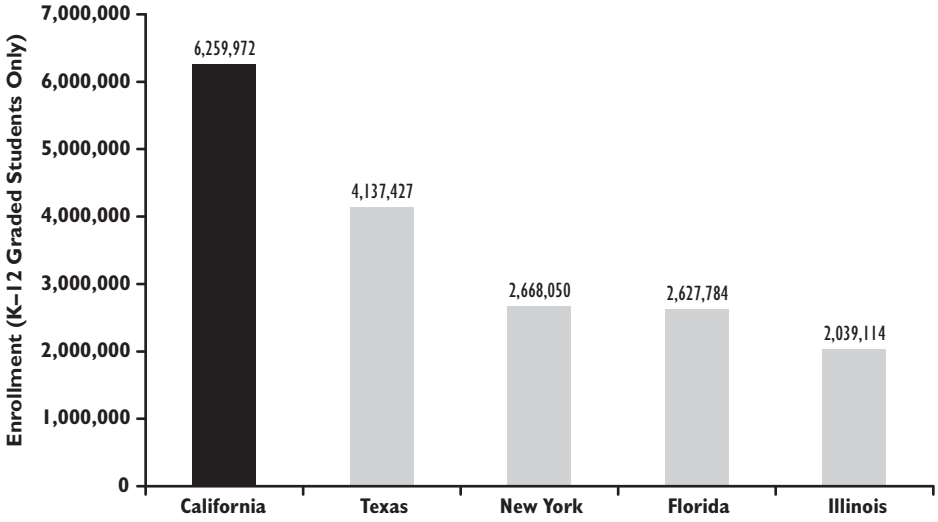
DEMOGRAPHICS

In 1985, California had 4.3 million public school students, 29% of whom were Hispanic. Over the next two decades, California stood out for its rapid growth and the emergence of Latinos as the largest segment of its student population. That period of rapid change in the state's ethnic makeup appears to have ended. That said, California still stands out dramatically from the nation in regard to the high proportion of its students whose parents have not graduated from high school and whose families speak a language other than English.

California has far more K–12 students than any other state

California has far more residents—and students—than any other state. Of the 47,751,099 U.S. students in 2005–06, 6,259,972 went to school in California, or about one in eight. Comparing California with the country's other four most populous states underscores its size. California has nearly 2 million more students than Texas, the next largest state, and 1.4 million more students than New York and Florida combined.

K–12 enrollment for the five largest (most populous) states, 2005–06



Data: National Center for Educational Statistics (NCES), Common Core of Data, 2005–06 EdSource 9/08

Comparisons are complex, even with data from credible sources

This report synthesizes information from a number of organizations. No information source is perfect, and sources sometimes conflict. EdSource made every attempt to use the most current data available from highly credible organizations and to present a range of perspectives to provide a full picture of these important issues.

Still, any attempt to compare California with other states faces pitfalls. For example, the data are not always consistent among states in terms of what is collected or in how and when that is done. States also often differ in their policies, which can make seemingly identical measures such as academic proficiency quite different in fact. Data definitions can also change over time.

In addition, care should be taken to understand that averages and totals, though often illuminating, can mask variations that are both informative and important.

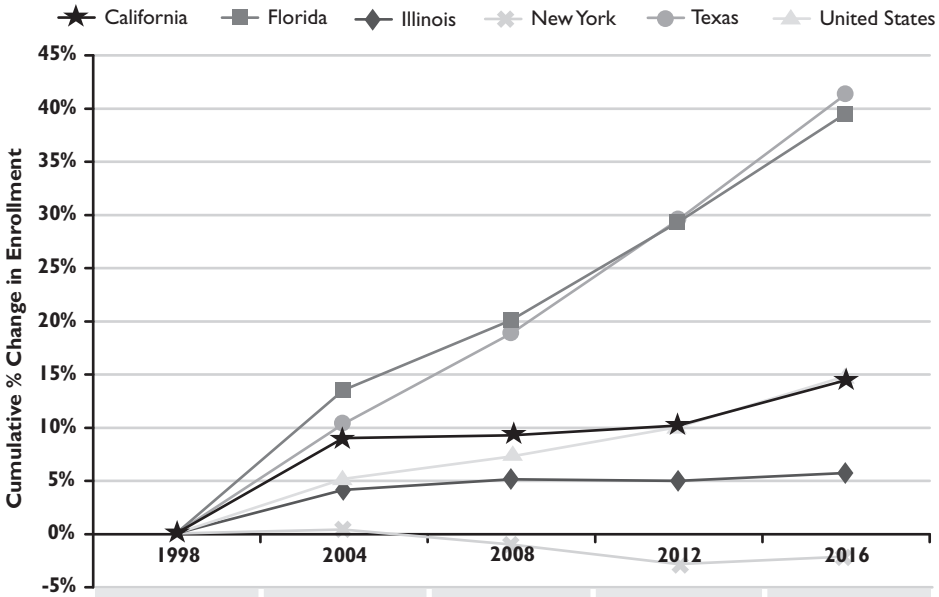
© Copyright 2008 by EdSource, Inc.

In contrast to Florida and Texas, California's years of above average enrollment growth appear to be over

National projections are for both Texas and Florida to experience continuous and rapid enrollment growth through 2016. By contrast, California's birth and immigration rates have slowed. As a result, the student population is not currently growing and is not expected to begin increasing again until 2010.

This represents a significant change. Between 1998 and 2004, California's percentage enrollment increases were roughly similar to those of Florida and Texas and higher than the United States as a whole. However, for the entire period from 1998 to 2016, national estimates are for California's enrollment to increase at about the same rate as the national average and less than half the rate of the increases expected in Texas and Florida. More recent projections from the California Department of Finance are for even slower growth.

Cumulative percentage change in K–12 enrollment from 1998 in the five largest states and the United States (actual numbers through 2004 and projections from 2005 to 2016)



	1998–2004	1998–2008	1998–2012	1998–2016
California	**9.0%**	**9.2%**	**10.1%**	**14.4%**
Florida	13.5%	20.0%	29.3%	39.5%
Illinois	4.1%	5.1%	5.0%	5.7%
New York	0.4%	-1.0%	-2.9%	-2.2%
Texas	10.3%	18.8%	29.5%	41.3%
United States	**5.1%**	**7.2%**	**10.0%**	**14.8%**

Data: National Center for Education Statistics (NCES), *Projections of Education Statistics to 2016* EdSource 9/08

The NCES data here have been adjusted to include only grade K–12 enrollment.

Although NCES data allow for state and national comparisons, they are based on 2004 data. The California Department of Finance, using more recent information, projects that the cumulative percentage increase in K–12 enrollment from 1998 to 2016 will be lower—closer to 10.5%.

© Copyright 2008 by EdSource, Inc.

Latinos are California's largest K–12 ethnic group

No ethnic group constitutes a majority in California, but Hispanics/Latinos are the largest segment of the student population and almost half of all students. This contrasts dramatically with the United States as a whole and with three of the other largest states. White students are the majority in New York, Florida, and Illinois.

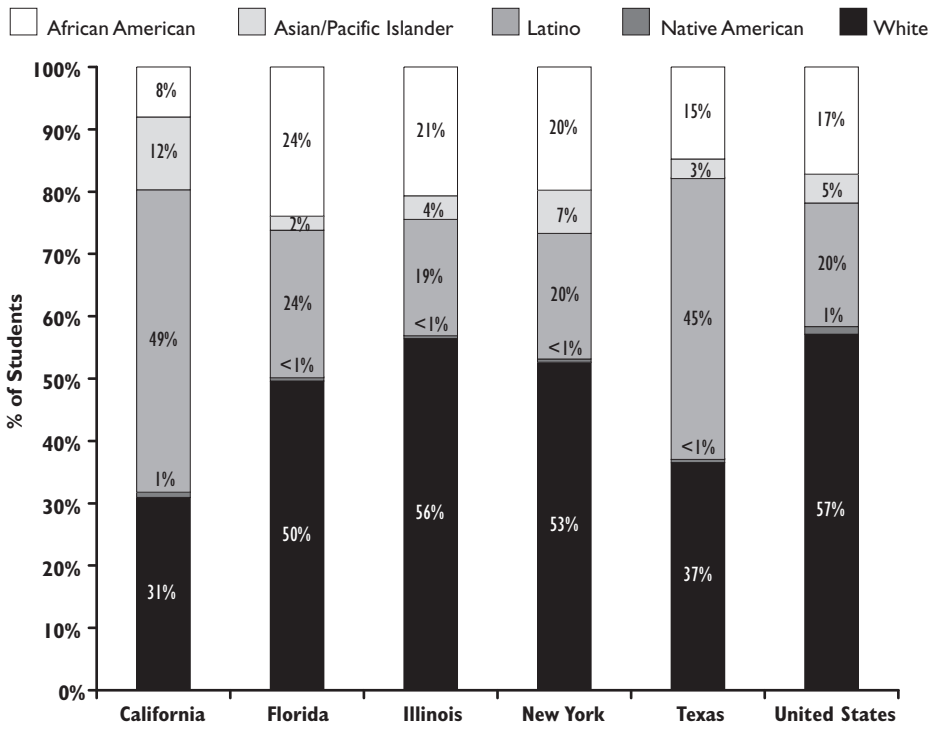
Texas, where 45% of students are Latino, is much more similar to California, though it has a larger portion of African American students and a very small proportion of Asian students compared with California's 12%.

For comparison purposes, this chart uses NCES data, which include only five ethnic group categories (white, non-Hispanic; Hispanic; black, non-Hispanic; Asian/Pacific Islander; and American Indian/Alaska Native). Percentages are based on the total number of students identified as being in these five categories, and the data do not include California students in the "multiple or no response" category.

Because California breaks down ethnicities into eight categories and includes the "multiple or no response" category, percentages from the California Department of Education (CDE) are not the same as those from NCES. The CDE in 2005–06 listed the state's ethnic breakdown as follows:

- 7.8% African American;
- 8.2% Asian;
- 2.6% Filipino;
- 47.6% Hispanic/Latino;
- 0.8% Native American/Alaska Native;
- 0.6% Pacific Islander;
- 30.3% white; and
- 2.0% multiple or no response.

Student ethnicity in the five largest states and the United States, 2005–06



Note: The percentages may not add up to 100% due to rounding.

Data: National Center for Education Statistics (NCES), Common Core of Data, 2005–06 EdSource 9/08

Sources of information used in this report

American Community Survey (ACS) is an ongoing project by the U.S. Census Bureau to learn more about the American population and how they live, based on a survey sent to a small sample of the national population. www.census.gov/acs

American Federation of Teachers (AFT) is a union of classroom teachers. Among its many activities, the AFT periodically issues a review of states' academic content standards. www.aft.org

Center on Education Policy (CEP) is a national, independent advocate for public education and for more effective public schools. CEP generally works with other research organizations to produce impartial reports on important policy issues. www.cep-dc.org

College Board is a not-for-profit organization best known for its SAT and Advanced Placement testing programs. www.collegeboard.com

KIDS COUNT is a national and state-by-state project of the Annie E. Casey Foundation to track the status of children in the United States. www.kidscount.org

Lincoln Institute of Land Policy, a private operating foundation, researches issues concerning the use, regulation, and taxation of land and strives to improve public dialogue and decisions about land policy. www.lincolninst.edu

© Copyright 2008 by EdSource, Inc.

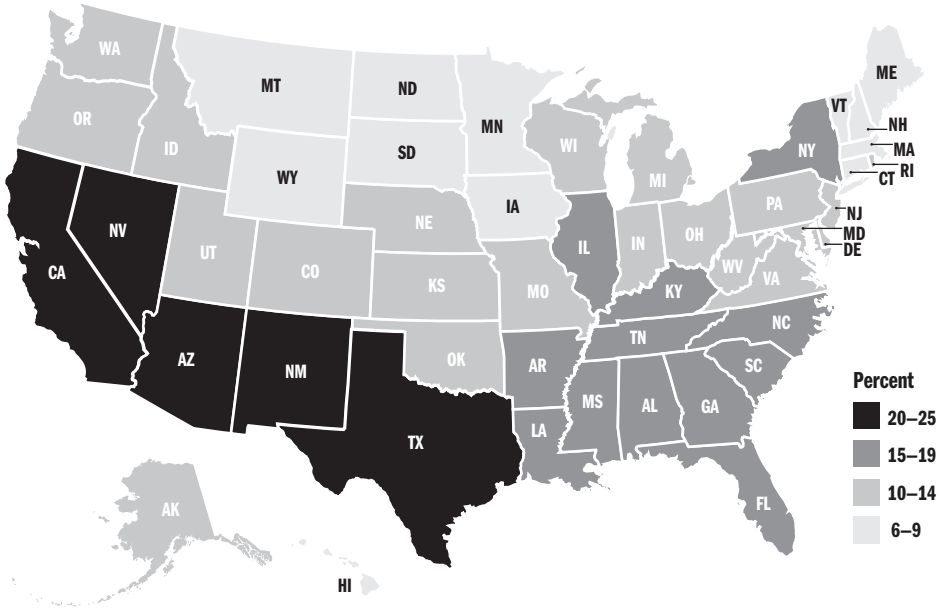
California has the highest proportion of children who live with a parent who is not a high school graduate

Among all the states, California has the highest percentage of children under age 18 who live in a family in which the head of household has not completed high school. This includes 25% of the state's children, compared with 16% in the United States as a whole. As the map shows, California is one of five states in which this percentage exceeds 20%. The state with the lowest percentage is Vermont (6%).

However, California is much closer to the national average in the proportion of children living with a head of household who has a bachelor's degree or higher: 25% in California compared with 27% nationwide.

Parent education level is a powerful predictor of academic achievement and also of family income. In California, 49% of K–12 students qualified for the federal free and reduced-price meals program (one measure of poverty) in 2005–06 compared with 43% nationwide. California's is the 13th highest percentage among all states. Among the five largest states, only Texas has a higher percentage of low-income students (51%).

Percentage of children in households in which the household head has not completed high school, 2006



Data: The Annie E. Casey Foundation, KIDS COUNT Data Center
Based on data from the 2006 American Community Survey.

EdSource 9/08

In the KIDS COUNT report from which these data are drawn, people who did not complete high school are referred to as "dropouts." However, the data could include people who never entered high school or were not educated in the United States. EdSource did not include the District of Columbia.

National Center for Education Statistics (NCES) is the primary federal entity that collects and analyzes education data from the United States and other nations. http://nces.ed.gov

National Center for Policy Analysis (NCPA) is a nonprofit, nonpartisan public policy research organization established with the goal to "develop and promote private alternatives to government regulation and control." www.ncpa.org

National Education Association's *Rankings and Estimates 2006–07* is a combination of two reports based on information reported by state education agencies. *Rankings* provides state-by-state figures on government financing, demographics, and public schools; *Estimates* provides projections of enrollment, finances, and employment and compensation of personnel. www.nea.org/edstats

Thomas B. Fordham Foundation supports the Thomas B. Fordham Institute, which promotes the belief that "all children deserve a high quality K–12 education at the school of their choice." The institute periodically issues a report assessing states' academic content standards. www.edexcellence.net

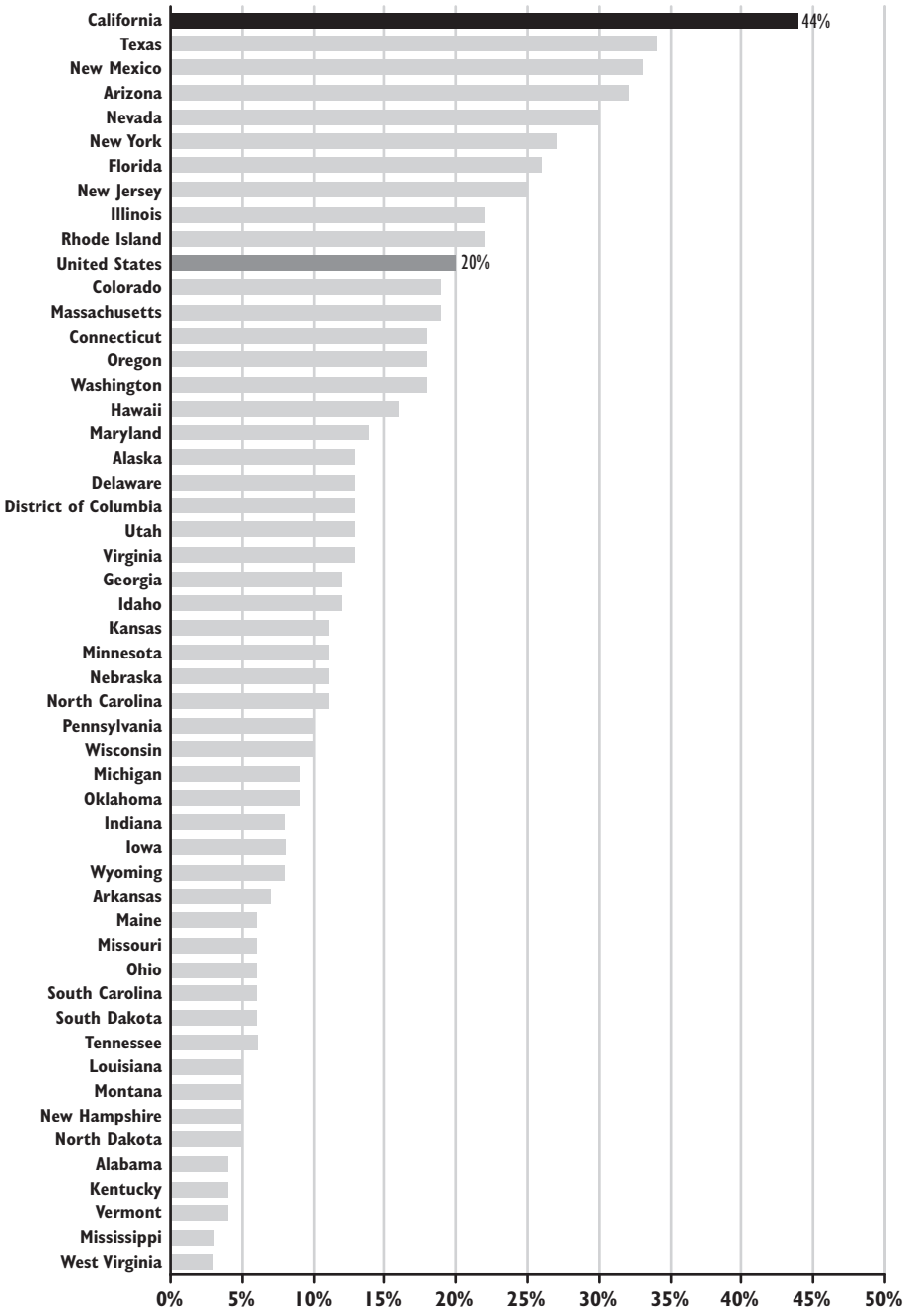
© Copyright 2008 by EdSource, Inc.

California ranks first by a wide margin in the proportion of children who speak a language other than English at home

Nearly half of California's children ages 5 to 17 speak a language other than English at home, according to data from KIDS COUNT, which is based on the 2006 American Community Survey. This is the highest concentration of any state—about 10 percentage points above the next highest state, Texas. And it compares to about 20% for the United States as a whole.

In terms of total numbers, California's overall population of children who are not native English speakers dwarfs those in other states. California is home to about 28% of all the country's children who speak a language other than English at home.

Percentage of children who speak a language other than English at home in 2006



Data: The Annie E. Casey Foundation, KIDS COUNT Data Center
Based on data from the 2006 American Community Survey.

EdSource 9/08

California is unusual in having two state education officials

California shares its basic model of state education governance with 10 other states. These states have a governor who appoints the members of the State Board of Education and a chief state school officer who is elected.

California also has both a secretary of education, appointed by the governor as an adviser, and an elected superintendent of public instruction, who leads the California Department of Education. Only the District of Columbia and four states—California, Kentucky, Massachusetts, and Virginia—have two state education officials.

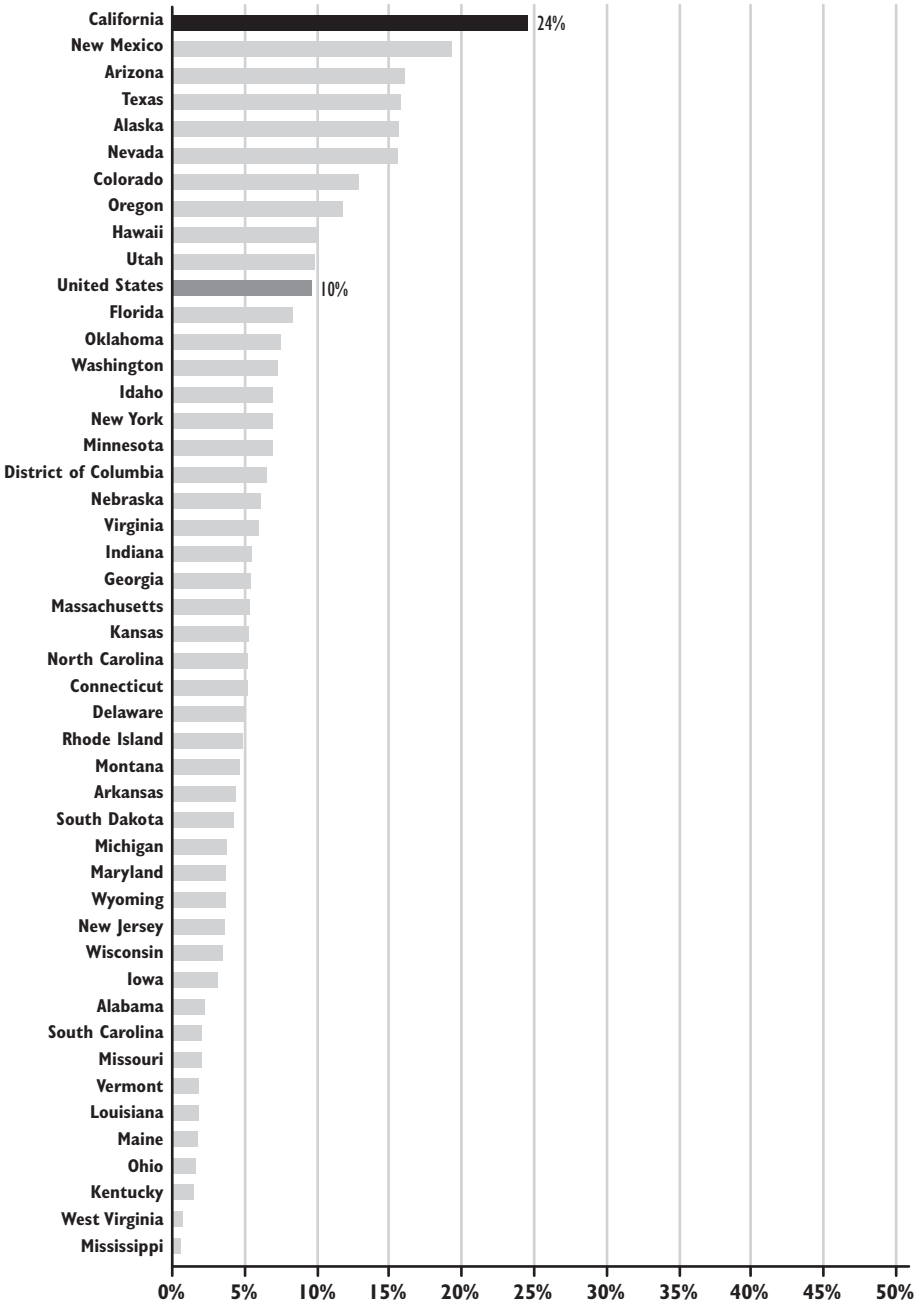
© Copyright 2008 by EdSource, Inc.

California educates more than a third of the nation's English learners

About 24% of California's public school students are classified as English learners (ELs), compared with 19% in the next-highest state (New Mexico) and 10% across the United States as a whole, according to NCES data. California's English learners comprise 37% of the total English learner population in the nation. At 1.6 million, California's English learner population is about 400,000 more than the number of English learners in Texas, Florida, and New York combined.

In comparison with the nation as a whole, California's ELs are also somewhat more likely to be Spanish-speaking (85% in California compared with 80% in the United States).

Percentage of student populations classified as English learners in 2005–06



Note: Data on English learners are missing for Illinois, Pennsylvania, Tennessee, New Hampshire, and North Dakota; thus their enrollments are not included in the total for the United States. Also note that bars may not appear accurate due to rounding.

Data: National Center for Education Statistics (NCES), Common Core of Data, 2005–06 EdSource 9/08

In California, somewhat more than half of the state's children ages 5 to 17 who speak a language other than English are classified as English learners (ELs) in public schools. States differ significantly in this regard. It is likely that these variations can in part be explained by differences in the socioeconomic and linguistic characteristics of students in the respective states. Almost certainly, differences in the policies and assessments states use to designate students as English learners or reclassify them as "fluent in English" also contribute to these variations.

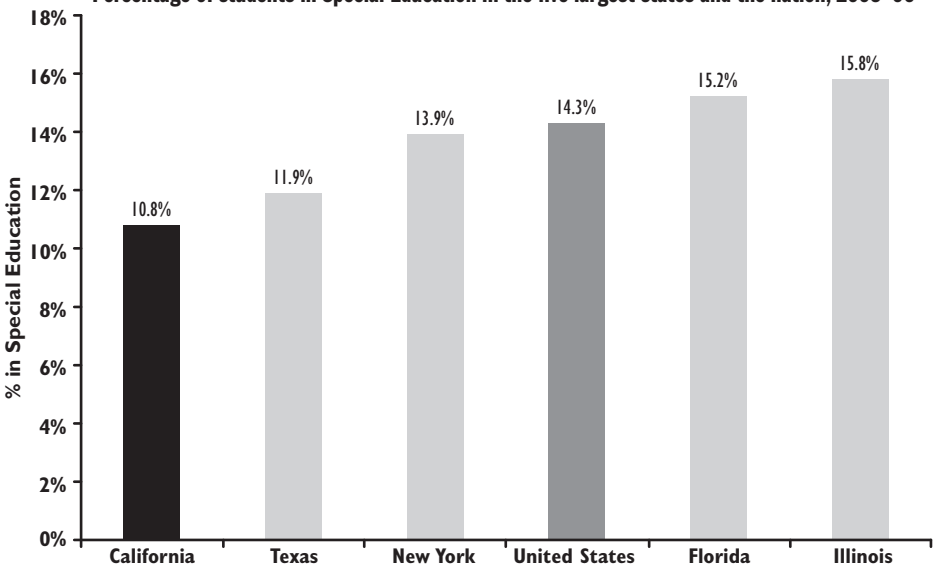
© Copyright 2008 by EdSource, Inc.

California identifies a lower-than-average percentage of Special Education students

Students receiving Special Education services consistently make up 10.8% of the school population in California. This is just three-fourths of the nationwide figure of 14.3%. It is also lowest among the five most populous states. These data more likely reflect differences in the rate of identification of students with disabilities, rather than substantial differences in student characteristics.

California's particularly low level of Special Education identification has drawn research attention. The state uses a census-based approach to funding Special Education in contrast to an approach that bases funding on the number of students identified. Researchers disagree regarding the extent to which this approach per se explains California's low identification rate. California's identification rate has historically been below the national average. And even before the advent of census-based funding, allocations of Special Education funds in the state had largely been disassociated with the number of students identified for service due to a prior "freeze" on state funding that paid for new Special Education staff (expressed as "Special Education funding units").

Percentage of students in Special Education in the five largest states and the nation, 2005–06



Note: Percentages are based on the number of Special Education students states reported to NCES (those with an Individualized Education Program or IEP) divided by the total K–12 graded enrollment reported. Students with IEPs may range in age from 3 to 22. Data from Missouri were not provided and thus not included in the U. S. calculation.

Data: National Center for Education Statistics (NCES), Common Core of Data, 2005–06 EdSource 9/08

California's high number of school districts is typical among the largest states, but the prevalence of nonunified districts is rare

California has 987 separate school districts—a number that is high in absolute terms but proportionally similar to other states. Florida's approach of organizing its school districts based on county lines is unique among the five largest states, but it is not unique among states as a whole.

In most states, the school districts are almost entirely unified districts serving students from kindergarten through grade 12. By contrast, only about 40% of California's school districts are unified, and they serve approximately 71.7% of the state's students (compared with 92.2% nationwide).

California is unusual, but not alone, in having a sizable portion of nonunified districts. It is one of only 10 states in which unified districts make up less than 70% of all districts, according to NCES. Vermont and Montana have the lowest percentage of unified districts (12%).

	California	Florida	Illinois	New York	Texas
Number of Districts	987	67	875	730	1,035
Percentage of Students in Unified Districts	71.7%	100%	62.2%	98.3%	99.8%

Data: National Center for Education Statistics (NCES), Common Core of Data EdSource 9/08
Number of districts from "Local Education Agency Universe Survey," 2005–06, Version 1a. Percent of population in unified districts from "School District Finance Survey (F-33)," fiscal year 2006, Version 1a.

© Copyright 2008 by EdSource, Inc.

RESOURCES

National comparisons provide a perspective on the process by which California funds its schools, how much the state invests, and how those funds are spent. In general, these measures show that the state is below average in its expenditures per pupil, among the most generous when it comes to salaries, and among the lowest in staffing levels. A bright spot is spending on facilities, which has increased dramatically in the past decade thanks to voter support for state and local bond measures.

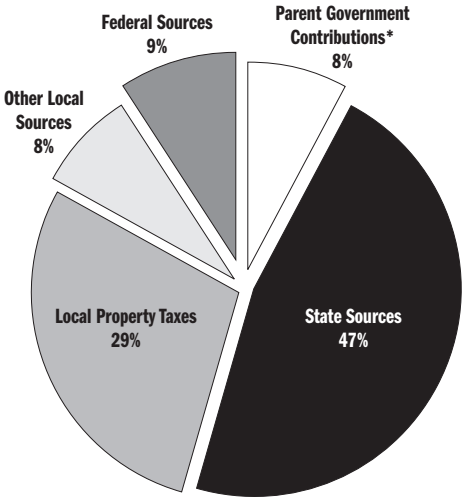
California is unusual in the extent to which the state controls the amount school districts receive

As a result of court decisions and ballot propositions, the amount California spends on its schools is largely determined by state policymakers rather than local voters and school districts. This level of state control over school funding is unusual as is the portion of school revenues that the state provides. Therefore, fluctuations in the health of the state's General Fund substantially influence decisions about education spending.

The extent to which state governments contribute to total education spending varies, but California's percentage is relatively high. Data for 2004–05, as reported by the California Department of Education, estimated that 58% of the total revenues budgeted for K–12 education came from the state. The state also largely determines the portion of local property taxes that are distributed to school districts, effectively controlling about 80% of total revenues.

This compared with 47% of revenues from state sources for the nation's schools as a whole in 2004–05, as reported by the Lincoln Institute of Land Policy. Because the 47% includes California, the difference between California and the rest of the country is understated.

Distribution of public K–12 school revenues in the United States, 2004–05



* These are contributions from local governments to school districts.

Note: Percentages may not add up to 100% due to rounding.

Data: *The Property Tax-School Funding Dilemma* (2007), Daphne A. Kenyon, Lincoln Institute of Land Policy. Based on data from the U.S. Census (2007B) and the Tax Foundation (2006).

EdSource 9/08

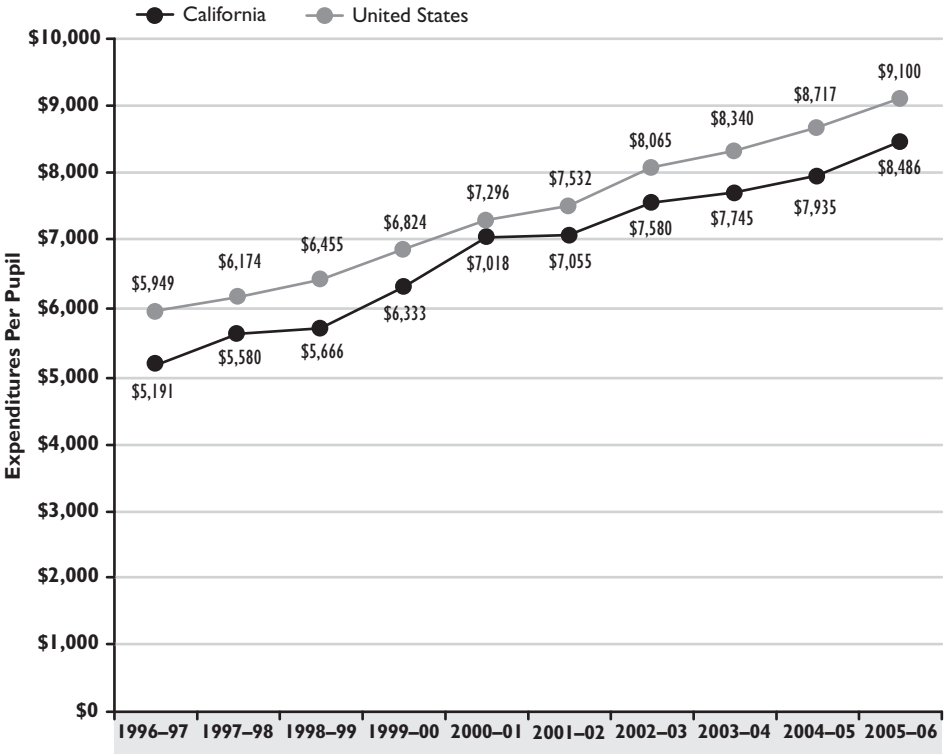
© Copyright 2008 by EdSource, Inc.

Per-pupil funding in California has consistently been below the national average

For 30 years, California has lagged behind the rest of the nation in its expenditures per pupil. In 1996–97, funding per pupil was 87% of the national average or $758 *less* per student.

Since then the state has gained some ground, but its progress has fluctuated along with the overall health of the state's economy. During the dot-com boom in 2000–01, for example, California's spending came within 4% of the national average. During subsequent slow downs in 2001–02 and again in 2004–05, the state's relative spending slipped once again. In 2005–06, California was at 93% of the national average in per-pupil spending, which translated to $614 *less* per pupil.

Expenditures* per pupil in California compared with the U.S. average



	1996–97	1997–98	1998–99	1999–00	2000–01	2001–02	2002–03	2003–04	2004–05	2005–06
Calif. % of U.S. Avg.	87%	90%	88%	93%	96%	94%	94%	93%	91%	93%
Calif. Rank Among the States	36	31	36	27	24	31	26	27	30	29

*Based on fall enrollment.

Note: NEA revises its data the year following their initial release. The data in the chart are all revised data except for 2005-06. Revised data were not available for that year.

Data: National Education Association (NEA), *Rankings and Estimates 2006–07* EdSource 9/08

Calculations of per-pupil expenditures can vary depending on how expenditures are defined and how students are counted.

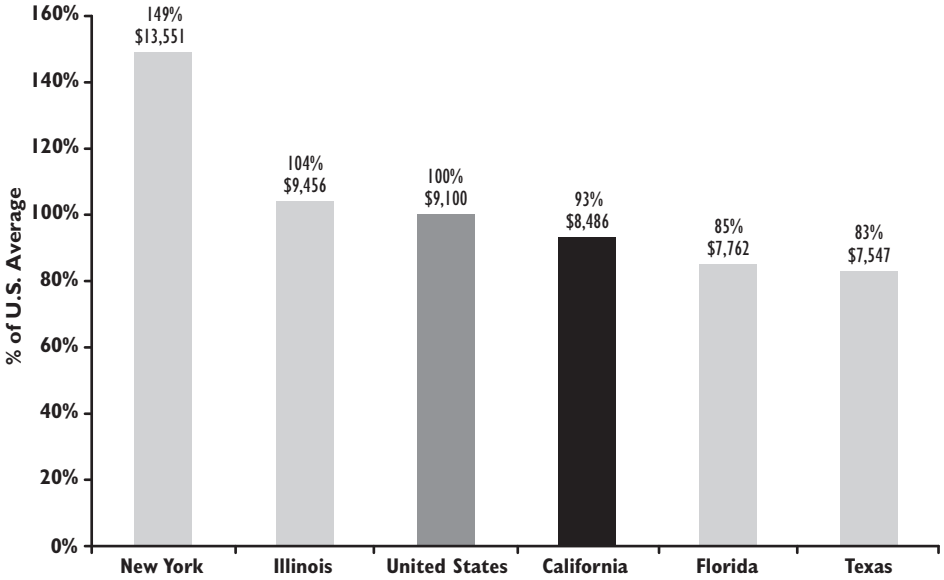
For its expenditure data, NEA uses the "current expense of education" information each state provides. This is a measure of the cost of direct educational services to students and, as such, excludes food services, facilities acquisition and construction, and certain other expenditures.

© Copyright 2008 by EdSource, Inc.

Among the five largest states, California ranked in the middle on K–12 per-pupil spending in 2005–06

Although California falls consistently below the national average in K–12 per-pupil spending, it is in the middle among the five most populous states. Both Texas and Florida have declined somewhat in their proportion of the national average since 1997–98—Texas most dramatically. In 1997–98, Texas' per-pupil expenditures were 93% of the national average and Florida's were 88%. It is notable that the student populations in both states had been growing rapidly during the same time frame (see page 3).

K–12 per-pupil expenditures as a percent of the U.S. average, 2005–06



Note: Per-pupil expenditures are based on fall enrollment.

Data: National Education Association (NEA), *Rankings and Estimates 2006–07* EdSource 9/08

The California State Preschool program is modest by national standards

California is one of 38 states that provide funding for a state prekindergarten program, according to the National Institute for Early Education Research (NIEER) State of Preschool Yearbook 2007. Of these states, the California State Preschool program ranked 25th out of the 38 states in the amount of state resources spent per child enrolled ($3,486 in 2006–07). New Jersey was the top-ranked state, spending $10,494 per child.

California's relatively low per-student expenditure is likely related to the quality standards of the state's preschool program. For example, although 22 states (including New Jersey) require preschool teachers to have a bachelor's degree, California's program does not. That lowers costs significantly. Similarly, California is one of only five states that do not limit class size to 20 children or fewer, which reduces the number of teachers that must be hired.

California's total state spending for this program was more than $295 million in 2006–07. The state supports many other early education and child development programs that were not included in NIEER's analysis.

© Copyright 2008 by EdSource, Inc.

California's teacher salaries are high compared with other states

California's average teacher salary—$59,825 in 2005–06—is higher than that of any other state. However, the relatively high cost of living in California is a contributing factor. In comparisons of average teacher salaries among states, the seniority of the workforce also plays a role because teacher salaries generally increase with experience.

Throughout the United States, teachers do not earn as much as other college graduates. Although California's teachers earn only about 84% as much as other college graduates in the state, that is a higher percentage than for teachers nationally (77%) and in most other individual states.

When teacher salaries are adjusted for regional cost-of-living differences, California remains among the states with the highest average teacher pay. EdSource adjusted the NEA teacher salary data using the NCES 2005 Comparable Wage Index (CWI) to reflect regional cost-of-living differences. When this was done, California's ranking dropped from first to seventh in the nation for 2005.

State-level comparisons do not consider the range in the cost of living *within* California

Adjusting teacher salary data and rankings based on the NCES 2005 Comparable Wage Index is useful for state-to-state comparisons. But these comparisons do not reflect the substantial variations within California and the impact of the high cost of living in its urban areas.

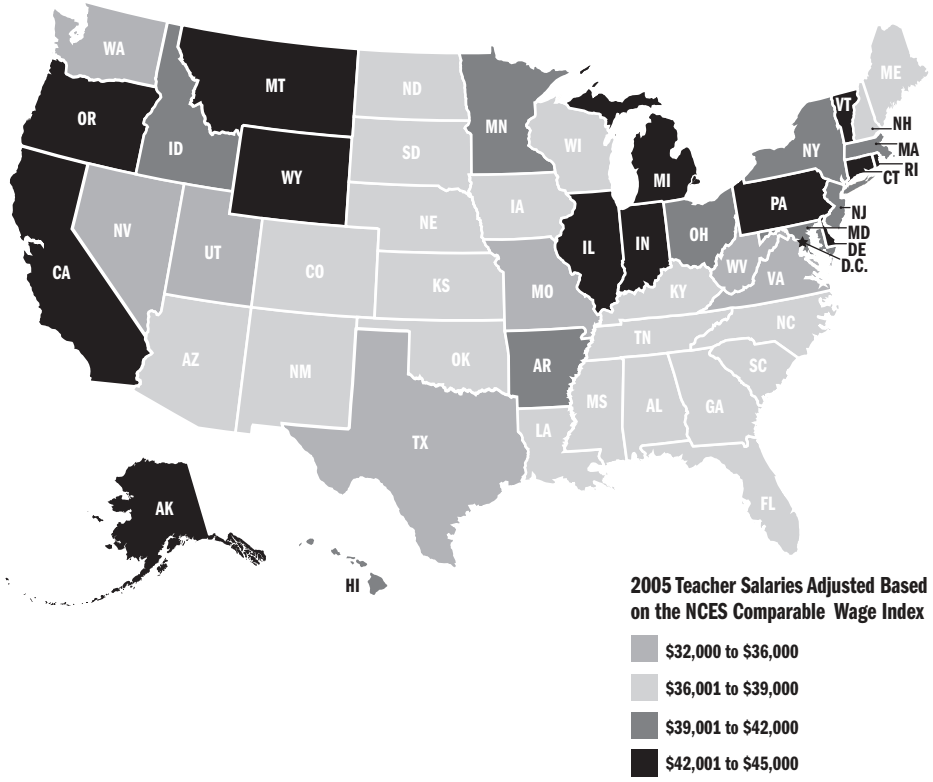
A 2005 analysis by the National Center for Policy Analysis (NCPA) compared the pay of elementary school teachers in 50 major metropolitan areas. NCPA found that although elementary school teachers in San Francisco rank second among the 50 areas with an *unadjusted* average salary of $59,284, the salary falls to $32,663 when *adjusted* for the cost of living and San Francisco falls to 49th. Similarly, Los Angeles elementary school teachers' average salary ranked fourth before a cost-of-living adjustment and 48th after. Findings for secondary school teachers were similar.

Note: NCPA determined metropolitan areas cost of living by using the American Chamber of Commerce Researchers Association Cost of Living Index. The center relied on the U.S. Bureau of Labor Statistics Metropolitan Area Occupational Employment and Wage Estimates report to calculate average teacher salaries.

Adjustments for cost of living can be done in various ways. The NCES CWI uses the salaries of college-educated workers who are not in public education and thus measures the wage an employer in a given area must offer to attract people with education levels that are comparable to school teachers.

Teachers are the focus of the salary comparisons here because they are the only educators for whom comparative salary data are readily available. It can reasonably be assumed that California's average salaries for other educators are comparably high compared to their counterparts nationally.

Teacher salaries in 2005 adjusted for regional cost differences in all 50 states



Unadjusted and adjusted teacher salaries for the five largest states and the U.S. average, 2005–06

	Unadjusted salary and rank among the states, 2005–06		Salary and rank among the states adjusted for wage levels*	
	Avg. Salary	Rank	Avg. Salary	Rank
Illinois	$58,686	4	$44,949	1
California	**$59,825**	**1**	**$43,139**	**7**
New York	$57,354	6	$40,533	19
Florida	$43,302	29	$36,975	37
Texas	$41,744	35	$33,358	50
U.S. Average	**$49,026**	**-**	**$39,188**	**-**

* Adjusted using the 2005 Comparable Wage Index provided by the National Center for Education Statistics (NCES).

Note: The District of Columbia is included with the 50 states.

Data: National Education Association (NEA), *Rankings and Estimates 2006–07* EdSource 9/08

© Copyright 2008 by EdSource, Inc.

California ranked near the bottom in pupil-teacher and pupil-staff ratios in 2005–06

California's below average per-pupil expenditure—combined with higher-than-average teacher salaries—translates into much higher-than-average pupil-teacher ratios. In 2005–06, California ranked 49th in the nation, with a ratio of 20.8 students per teacher. Only Arizona and Utah had higher numbers of students per teacher.

Another way to think about pupil-teacher ratios, and ratios of other staff to students, is by counting the number of staff per 1,000 students. These data make clear that California not only has fewer teachers, but also fewer adults in its schools across all categories. California has about 72% as many staff in its districts and schools as is typical for the nation as a whole, and it has about 66% (or two-thirds) as many as is typical in Texas.

The effects are easier to understand when one thinks about how they play out in a typical school or district. For example, on average a California school of 1,000 students would have 2.2 school site administrators (principal or assistant principal). Nationally, the average is 3.4 people. The same school in California would have 48 teachers compared with a national average of almost 64—three teachers in California for every four in the United States.

The differences are even more dramatic for district officials. On average, a California school district with 10,000 students would have four district officials/administrators compared with 13 in the typical district in the United States, or more than three times as many.

Staff per 1,000 pupils in 2005–06 for the five largest states and the U.S. average

	Texas	New York	Illinois	Florida	California	U.S. Average	% of U.S. Average	California's Rank
Total Staff	**137.1**	**132.7**	**125.4**	**117.5**	**90.0**	**124.7**	**72%**	**50**
Total District Staff (including classified staff)	**2.9**	**8.6**	**5.7**	**6.6**	**5.0**	**5.7**	**88%**	**35**
Officials & Administrators only	1.8	1.1	1.8	0.7	0.4	1.3	33%	47
Total School Staff (including classified staff)	**99.7**	**103.8**	**96.0**	**87.0**	**70.0**	**95.2**	**74%**	**51**
Certified School Staff only	**77.2**	**84.5**	**69.0**	**65.3**	**51.5**	**70.5**	**73%**	**49**
Principals/Asst. Principals	7.0	3.1	3.1	2.7	2.2	3.4	63%	49
Teachers	66.8	77.8	63.4	59.4	48.0	63.9	75%	49
Guidance Counselors	2.3	2.4	1.5	2.1	1.1	2.1	52%	51
Librarians	1.1	1.2	1.0	1.0	0.2	1.1	17%	51

Note: The District of Columbia is included with the 50 states. NCES includes pre-K public school students and their teachers in these data. NCES estimated that there were 125,099 pre-K students and 8,850 pre-K teachers in California in 2005–06. The "Total Staff" row includes all district and school staff plus those who fall under the NCES category "All Other Support Staff."

Data: National Center for Education Statistics (NCES), Common Core of Data, 2005–06 EdSource 9/08

© Copyright 2008 by EdSource, Inc.

Changes in state policy led to dramatic changes in California's funding of school facilities after 1998

During the past two decades, California, Florida, and Texas have all seen their K–12 enrollments increase significantly. However, between 1988 and 1997, California fell well below the other two fast-growing large states—and all other states combined—in its funding of school facilities construction.

Beginning in 1998, that picture began to change. Between 1998 and 2006, voters passed a series of statewide bond measures totaling $35.4 billion; and in 2000, they supported Proposition 39, which reduced the minimum voter-approval threshold for local bond measures from two-thirds to 55%.

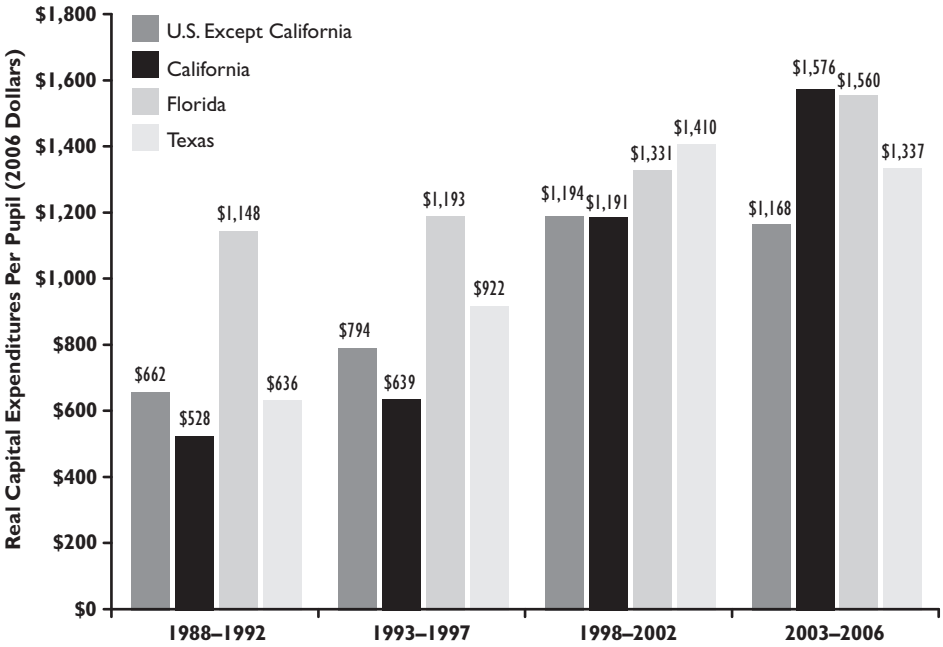
Proposition 39 has had a significant impact on bond passage rates. Altogether 77% of all bond elections from 2001 through 2007 passed (and 83% of those requiring 55% approval). Those elections provided $32.9 billion for local school facilities, compared with $19.1 billion in the prior 14 years. California's capital expenditures per pupil from 2003 to 2006 were the highest of any state.

General obligation bond passage rates before and after Proposition 39

	Number of G.O. Bonds	Percent Passing	Dollar Amount of Passing Bonds (not adjusted for inflation)
1986–2000	859	55.4%	$19.1 billion
2001–2007	476	77.3%	$32.9 billion

Data: Based on the best available information from EdSource, School Services of California, Inc., League of Women Voters of California, county election offices, and local education agencies — EdSource 9/08

Capital expenditures per pupil in 2006 dollars for California, Florida, Texas, and for the United States excluding California



Data: U.S. Census Bureau, "Public Education Finances," various years. These data were adjusted to 2006 dollars by Eric Brunner, associate professor of economics, Quinnipiac University. — EdSource 9/08

From 1988 to 2006, public school enrollments in California grew by 44% compared with a 23% growth rate for the rest of the United States (excluding California). Texas grew nearly as rapidly, with a growth rate of 40%, while Florida's increase was substantially more (63%).

© Copyright 2008 by EdSource, Inc.

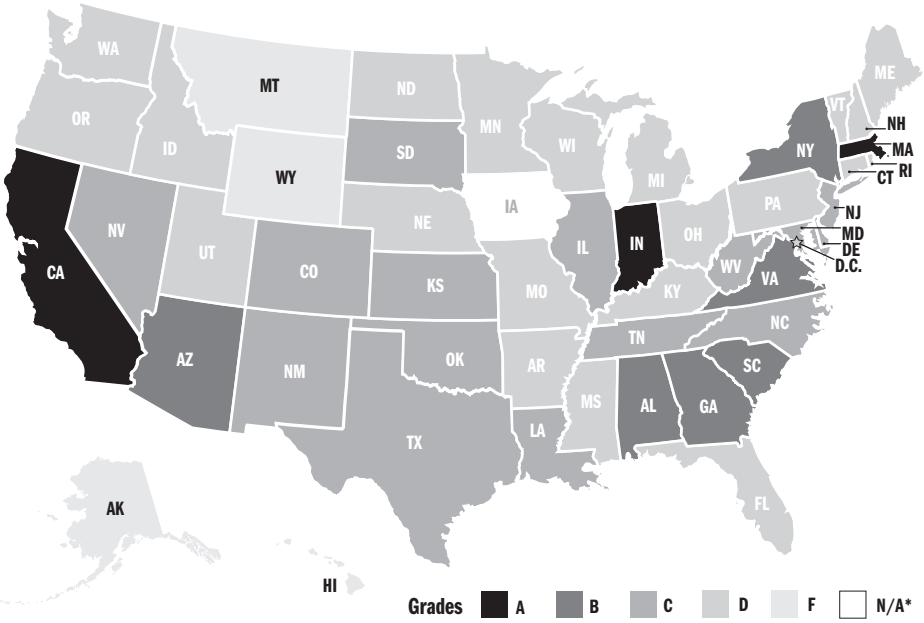
STUDENT ACHIEVEMENT

Comparing the achievement of California's students to those in other states is as much a comparison of student backgrounds and state policy as of performance. Each state determines its own academic standards and its own assessments of those standards; and it decides on the cut scores that will represent "proficient" on those assessments. California's demanding expectations for academic achievement and ambitious definition of proficiency affect how well the state's schools perform against the standards and their ability to meet federal benchmarks. Although other measures—such as high school graduation rates, scores on the National Assessment of Educational Progress (NAEP), and college admissions tests—are more comparable, state-specific factors, including students' family backgrounds, still affect the results. For all these reasons, achievement comparisons can illuminate how each state is progressing toward its own and federal goals, but they do not necessarily indicate that one state's education system is better or worse than another's.

Two organizations rate California's academic content standards among the highest in the nation

California's academic content standards were developed through an extensive consultative process within the state in the late 1990s. Content standards specify what students should know and be able to do by subject and grade level. Every state now has academic content standards of their own and assessments that test how well students have mastered those standards, as required by the federal No Child Left Behind (NCLB) law. However, California's standards are consistently ranked as being of the highest quality.

States' academic content standards graded from "A" to "F" by the Fordham Foundation in 2006



* Iowa did not have state academic content standards at the time the Fordham Foundation wrote its report, but its Legislature passed a bill in 2006 to create them, according to Fordham. Rhode Island had no standards for history at the time of the report.

Data: Thomas B. Fordham Foundation, *The State of State Standards,* 2006 EdSource 9/08

The Thomas B. Fordham Foundation gives California's content standards a ranking of "A," and the American Federation of Teachers (AFT) rates the standards "A-." The difference between the two organizations is their emphasis.

In Fordham's *State of State Standards* in 2006, California is among just three states to earn "straight A's" in all four core subjects: English language arts, math, science, and world history. This contrasts with Fordham's average rating of "C-" for state standards across the nation on all subjects. The Fordham Foundation's criteria address clarity, structure, and the scope and rigor of content. Fordham rates standards in each of the four core subjects for all K–12 grades collectively.

By comparison, AFT rates standards for specific grade spans. In *Sizing Up State Standards 2008,* AFT considers standards in four content areas (English, math, science, social studies) in three grade levels (elementary, middle, and high school). For each of its 12 categories of standards, the AFT provides a yes-or-no rating on whether the standards meet the organization's composite criteria for clarity, specificity, and content that support teaching and learning. Along with Arkansas and Louisiana, California received 10 positive ratings out of 12. (California's high school English and elementary social studies standards did not meet AFT's criteria.) Four jurisdictions did better than California: Georgia, Indiana, and the District of Columbia received 11 positive ratings, and Virginia received 12.

© Copyright 2008 by EdSource, Inc.

California's progress against its own standards, though largely comparable to other states, shows variation by grade level

Acknowledging the wide variation in academic standards and assessments among the states, the Center on Education Policy (CEP) conducted an analysis of how well states were doing against their own benchmarks as reported to the federal government for NCLB purposes. For those states with sufficient data, CEP reported on progress between 2002 and 2007, focusing on whether achievement had increased and if achievement gaps had narrowed.

California joined the majority of states in showing gains at the elementary level

California's progress against its own demanding performance standards shows gains in elementary school in both math and English language arts, as is true in most other states for which data were available.

States' progress on the percentage of elementary school students scoring proficient or above on state tests of reading and math, 2002 through 2007

	Reading	Math
States Making Gains	**California and 23 other states–** AK, AL, AR, FL, IA, ID, KY, LA, MD, MS, MT, ND, NE, NM, NV, OH, OK, OR, SC, TN, TX, WA, WV	**California and 27 other states–** AK, AL, AR, AZ, FL, GA, IA, ID, KY, LA, MA, MD, MS, MT, NE, NJ, NM, NV, OH, OK, OR, PA, SC, TN, TX, WA, WV
States Making Slight Gains	**10 states–**AZ, CO, HI, IN, MA, NC, NJ, PA, SD, UT	**5 states–**CO, HI, IN, ND, UT
Sufficient Trend Data Unavailable	**16 states**	**17 states**

DATA: *Has Student Achievement Increased Since 2002? State Test Score Trends Through 2006–07,* Center on Education Policy, 2008. CEP uses 4th grade California Standards Test (CST) results for the state's elementary school reading and math analysis. EdSource 9/08

CEP's report of California's slight decline in middle school math misses real progress in Algebra I results for 8th graders

In middle school, California, like 19 other states, shows a gain in reading, according to the CEP report. However, CEP used Algebra I as its measure of student performance on middle school math in California, a test that about half of the state's 8th graders took in 2007. The researchers reported a slight decline in math performance based on scores of these algebra test takers only. (The percent scoring proficient went from 39% to 38% between 2002 and 2007.)

Underlying this slight decline is the fact that the percentage of 8th graders taking Algebra I in California increased greatly, particularly among lower-scoring subgroups. (The overall participation rate rose from 32% to 49% between 2002 and 2007.) Even though the performance of each ethnic subgroup improved during that time, the rapid expansion in participation by lower-scoring subgroups had a dampening effect on overall scores. Thus, a statewide decrease in the percent of test takers scoring proficient masks the good news of increased participation and test scores for all subgroups. New state efforts to further increase the number of 8th grade students taking the Algebra I test make it likely that these performance data will continue to be complex for years to come.

The key metric for No Child Left Behind (NCLB) reporting is the percent of students scoring at least proficient on state tests.

As part of California's development of its state accountability system, California set five performance levels for evaluating student performance on state assessments: advanced, proficient, basic, below basic, and far below basic. For most grade levels and subjects, the proficient benchmark represented an ambitious performance level that less than a third of students were achieving at the time.

© Copyright 2008 by EdSource, Inc.

States' progress on the percentage of middle school students scoring proficient or above on state tests of reading and math, 2002 through 2007

	Reading	Math
States Making Gains	**California and 19 other states–** AK, AL, AR, IA, ID, IN, KY, LA, MA, MD, MT, ND, NE, NM, NV, PA, TN, TX, WA	**28 states–**AK, AL, AR, CO, FL, GA, HI, IA, ID, IN, KY, LA, MA, MD, MS, NE, NJ, NM, NV, OH, OK, OR, PA, TN, TX, UT, WA, WV
States Making Slight Gains	**9 states–**CO, FL, MS, NC, NJ, OH, OK, OR, UT	**2 states–**ND, SC
No Change	**1 state–**WV	**1 state–**AZ
States Making Slight Declines	**3 states–**AZ, HI, SC	**California** (based on Algebra I test takers only)
States Making Declines	**1 state–**SD	**1 state–**MT
Sufficient Trend Data Unavailable	**16 states**	**17 states**

DATA: *Has Student Achievement Increased Since 2002? State Test Score Trends Through 2006–07,* CENTER ON EDUCATION POLICY, 2008. FOR CALIFORNIA'S MIDDLE SCHOOL ANALYSIS, CEP USES 8TH GRADE CALIFORNIA STANDARDS TEST (CST) RESULTS FOR READING AND THE ALGEBRA I CST FOR MATH. EDSOURCE 9/08

California's high school progress is mixed, with gains in math and a slight decline in reading

CEP's analysis places California with 18 other states whose high school students show gains in math and with five states whose students show a slight decline in reading. These findings are difficult to interpret because states vary greatly in which tests are used at the high school level. For example, the only standards-based test in English and math that California high school students take for federal reporting purposes is the California High School Exit Exam (CAHSEE). It measures English standards through 10th grade and middle school math standards (including Algebra I). This is not the approach taken by all states, some of which do not even have exit exams.

States' progress on the percentage of high school students scoring proficient or above on state tests of reading and math, 2002 through 2007

	Reading	Math
States Making Gains	**14 states–**AR, KY, MA, MD, MT, ND, NE, NH, OH, OK, PA, TN, TX, WA	**California and 18 other states–** AL, AR, FL, KY, LA, MA, ME, MS, ND, NE, NH, NJ, OH, OK, TX, UT, WA, WV
States Making Slight Gains	**10 states–**CO, CT, HI, ID, LA, NJ, OR, RI, SC, UT	**7 states–**CT, GA, ID, IN, NM, PA, SC
No Change	**1 state–**IN	**4 states–**CO, IA, OR, TN
States Making Slight Declines	**California and 5 other states–** AL, AZ, FL, IA, WV	**3 states–**AZ, HI, RI
States Making Declines	**5 states–**ME, MS, NM, NV, SD	**2 states–**MT, NV
Sufficient Trend Data Unavailable	**14 states**	**15 states**

DATA: *Has Student Achievement Increased Since 2002? State Test Score Trends Through 2006–07,* CENTER ON EDUCATION POLICY, 2008. CEP USES THE ENGLISH LANGUAGE ARTS AND THE MATH SECTIONS OF THE CALIFORNIA HIGH SCHOOL EXIT EXAM TAKEN IN 10TH GRADE FOR CALIFORNIA'S HIGH SCHOOL ANALYSIS. EDSOURCE 9/08

The Center on Education Policy stresses that its analysis is not intended to compare states with each other. Rather, the center's central question was the extent to which each state could claim progress against its own standards based on its own assessments. As California's Algebra I results demonstrate, answers to even those seemingly straightforward questions can be misleading.

A major contribution of CEP's work is its online analyses and profiles of the test results for all 50 states. These can be accessed at www.cep-dc.org as part of the report, *Has Student Achievement Increased Since 2002? State Test Score Trends Through 2006–07.*

© COPYRIGHT 2008 BY EDSOURCE, INC.

California's implementation of No Child Left Behind has meant a large proportion of the state's schools are not making adequate yearly progress

NCLB requires schools, districts, and states as a whole that receive Title I funding to demonstrate adequate yearly progress (AYP) in English language arts and math. Based on federal guidelines, the state sets annual targets for the percentage of students who must test proficient or above in those subjects in order to make AYP.

Several state policy decisions contribute to whether a school, district, or state makes AYP, including:

- the rigor of state standards,
- the state's cut score for proficient on the state test, and
- the annual measurable objectives (AMOs) that must be met in order to make AYP.

Each state sets its own policies (with federal approval), and they vary considerably from state to state.

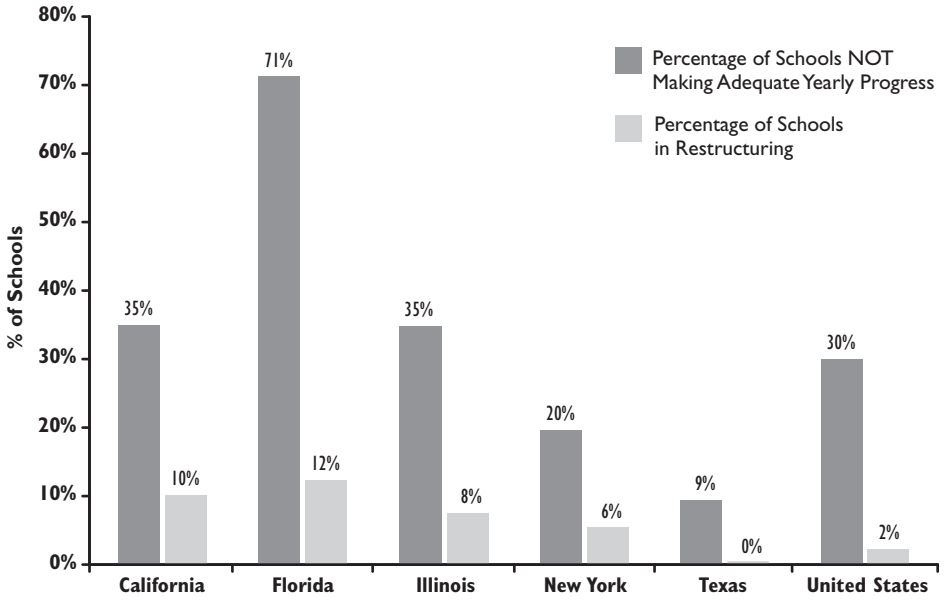
Prior to the enactment of NCLB in January 2002, California's State Board of Education (SBE) had already established rigorous academic content standards and built assessment and accountability systems based on them. The state had also set cut scores that defined proficiency for English language arts and was in the process of doing the same for other subjects. In response to NCLB, the SBE set up California's AMOs based on the demanding definitions of proficiency already in place. With a relatively high bar for proficiency and an ever-increasing percentage of students expected to clear that bar, California is seeing a growing share of its schools unable to make AYP each year.

Within this context, a larger proportion of California schools have been identified for NCLB sanctions than is true nationally. Comparing California to the other four large states, however, shows that Florida has even more schools facing sanctions. By contrast, Texas in particular appears to be faring much better. It is unclear whether Texas students and schools are doing better academically, whether the state's standards are less rigorous, or whether its accountability measures are set up under NCLB differently.

A school is considered "in need of improvement" if it or any of its student subgroups has not made adequate yearly progress for two consecutive years on one indicator (English or math). In California, these schools enter "Program Improvement," and they must develop a two-year improvement plan. After four consecutive years of missing AYP goals, a school faces "corrective action" by the state, which includes more serious steps for turning around the school's performance. If after a year of corrective action the school is still not making AYP, it must begin planning some type of "restructuring" to be executed if the school again fails to make AYP. Restructuring requires a change in the governance of the school, with options such as replacing staff or converting to a charter school.

For more information on AYP, please see the Accountability Overview at: www.edsource.org

Percentage of total public schools not making AYP and schools in restructuring, 2006–07



Note: A Title I school that does not make adequate yearly progress (AYP) for five consecutive years is identified for restructuring.

Data: U.S. Department of Education, *Consolidated State Performance Report*, 2006–07 EdSource 9/08

© Copyright 2008 by EdSource, Inc.

Although California ranks among the lowest states on NAEP, its scores are closer to the national average if English learners' results are excluded

To varying degrees, standardized state tests differ from the National Assessment of Educational Progress (NAEP) in purpose and design and in how well students perform. NAEP is the only national assessment of what U.S. students know and can do in core academic subjects. NAEP is an ongoing assessment, and results are calculated to permit comparisons of student performance among states.

It is important to note, however, the state policies that affect California's NAEP results, as well as the results of the other states:

- NAEP is not aligned with state standards, so it does not necessarily test what students are learning in the classroom.
- California includes many more of its English learners in the testing than do other states with large English learner populations. These students' performance thus has a larger effect on the state's overall performance than is true elsewhere. For greater accuracy, it is important to compare subgroup results with those of similar students in other states and the nation.

California's overall student performance on the 2007 NAEP was significantly lower than the national average. The state's students ranked among the five lowest states on each of the assessments. However, when the English learner population is taken out of the equation and the results of non-English learners only are compared, California's performance is more akin to that of the other large states and the nation as a whole.

Percentage of non-English learners scoring proficient or above on 2007 NAEP

	California	Florida	Illinois	New York	Texas	United States
4th Grade Reading	31%	35%	34%	38%	32%	34%
4th Grade Math	40%	42%	39%	46%	44%	42%
8th Grade Reading	26%	29%	30%	33%	29%	31%
8th Grade Math	29%	28%	31%	31%	37%	33%

Note: Observed differences may not be statistically significant.

Data: U.S. Department of Education, Institute of Education Sciences, National Center for Education Statistics (NCES), National Assessment of Educational Progress (NAEP), 2007

EdSource 9/08

© Copyright 2008 by EdSource, Inc.

Based on estimates, California high school graduation rates were comparable to the national average in 2005

Earning a high school diploma is an important student outcome and a strong predictor of future social and economic success. NCLB requires schools to report graduation rates as an academic accountability indicator at the high school level. However, states currently vary in how they calculate these graduation rates. Efforts to standardize this important measure and make it more accurate are currently under way (see box).

In the meantime, the U.S. Department of Education compares states' graduation rates using an estimate known as the Averaged Freshman Graduation Rate (AFGR). The AFGR is based on the average size of an incoming freshman class and the average number of diplomas awarded four years later. Based on the AFGR estimate, 74.6% of California's 12th graders graduated on time in 2005, roughly the same as the national average of 74.7%, giving California a ranking of 33rd.

New methods and data are expected to make graduation rates more accurate and more comparable in the future

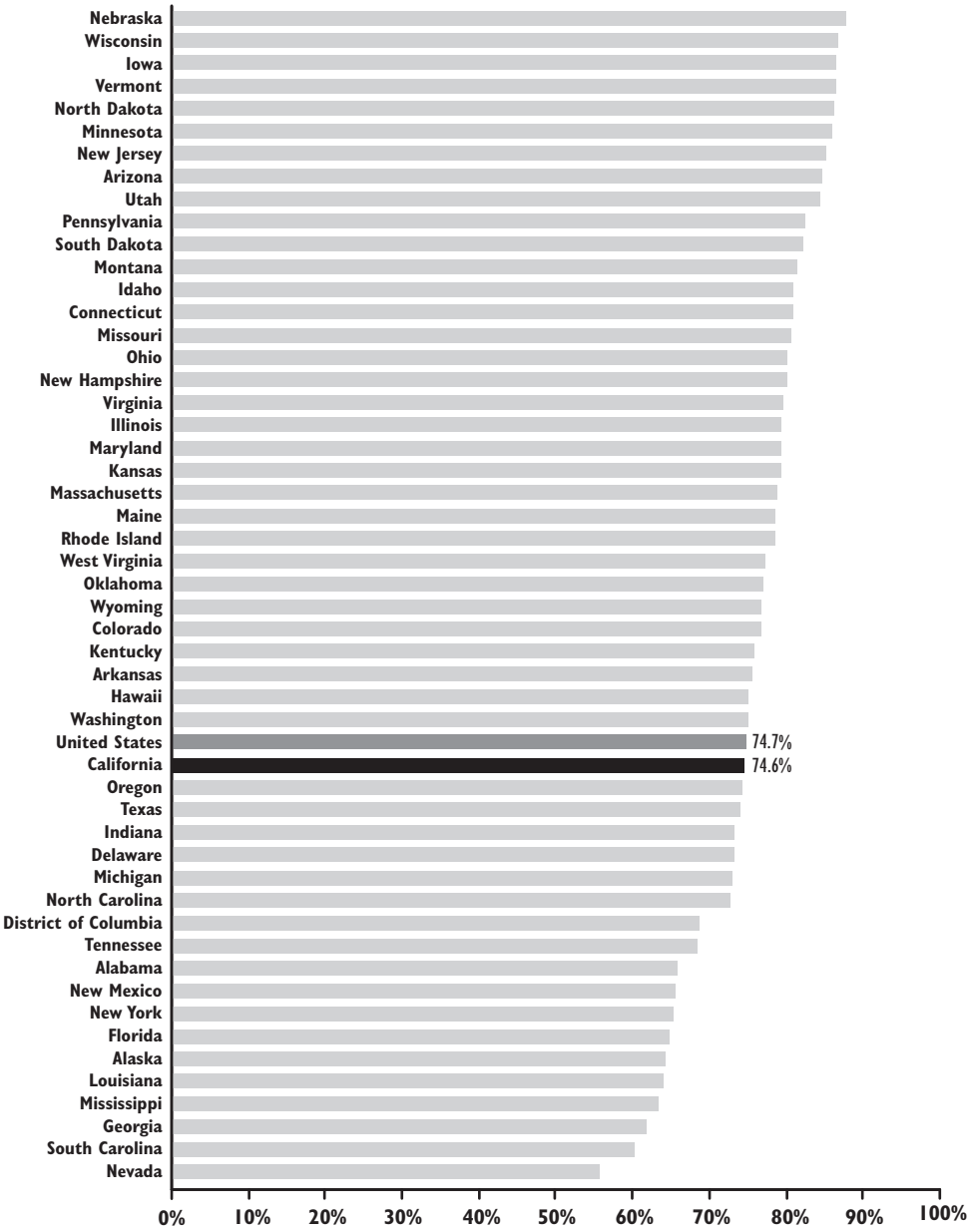
According to *Education Week,* California and most other states use a graduation rate calculation that divides the number of students earning a diploma by that same number, plus students who have dropped out or have otherwise completed their education.

New Department of Education regulations will require states by 2012–13 to use a uniform four-year adjusted cohort rate, agreed to by the National Governors Association (NGA). The cohort method requires a longitudinal data system to assign students a unique identifying number and track the individual from ninth grade through graduation or until that student drops out.

Many states, including California, are in the process of bringing their longitudinal data on line. California's experience with the student-based data in the summer of 2008 makes it clear that this new approach to graduation rate calculations can markedly change the results. Using student-level data for the first time, the state reported that for 2006–07 the "ninth grade to graduate rate" was 67.6%. For that same year, the California Department of Education reported to the federal government a graduation rate of 79.5% using the method specified under its existing NCLB reporting plan.

Between 2000 and 2005, California's estimated graduation rate increased nearly 3 percentage points, at the same rate as the national average. Over that same period, four states saw their graduation rates decline, and 25 states improved but at a slower rate than the national average. The other 21 states improved their graduation rates by more than 3 percentage points.

Graduation rates by state in 2005, using the Averaged Freshman Graduation Rate (AFGR) method



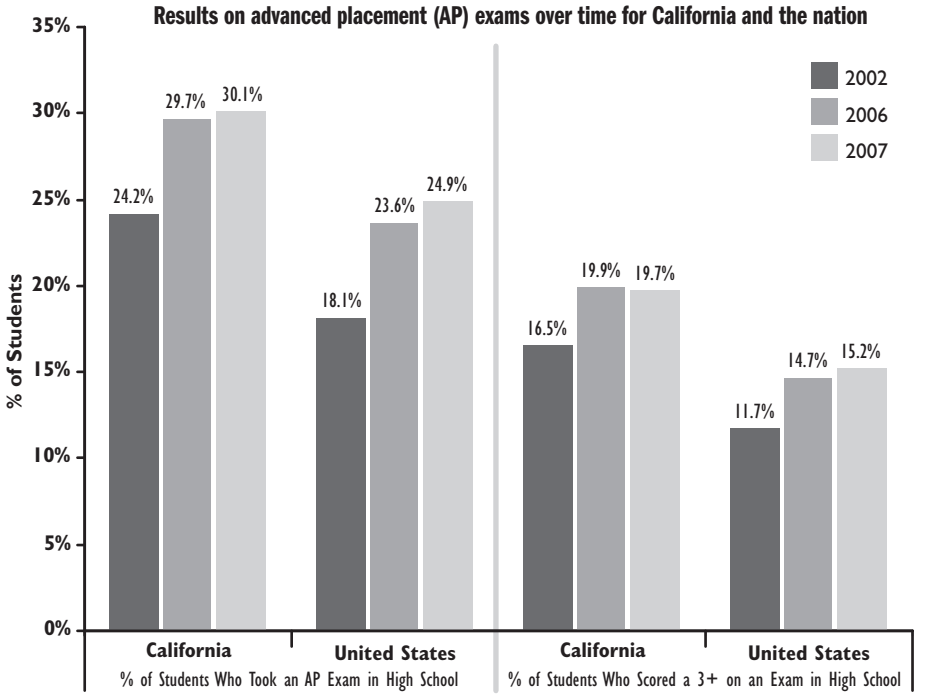
Data: National Center for Education Statistics (NCES), Digest of Education Statistics, 2007. Averaged freshman graduation rates for public secondary schools, by state: selected years, 1990–91 through 2004–05

EdSource 9/08

© Copyright 2008 by EdSource, Inc.

California high school students exceed their peers in advanced placement course-taking and test performance

During the past few years, the percentage of California students who took an advanced placement (AP) exam in high school has increased and exceeded the national percentage. California students were also more likely to score 3 or better on these tests. Students who score a 3 or higher (out of 5) may receive college credit. According to several studies on the topic, earning a 3 or higher on an AP exam is a main predictor of college performance.



Data: The College Board, AP Report to the Nation 2008, Appendix C — EdSource 9/08

Performance of California's college-bound students on the SAT is comparable to that of students in other states

The rates of student participation and achievement on a college-readiness test such as the SAT Reasoning Test (critical reading, mathematics, and writing) provides an important indicator of students' preparation for college-level work and their postsecondary ambitions. California's participation rates and scores on the SAT test sections are similar to the national averages.

Average scores for California and the nation on the SAT for the class of 2007

Test Section	California	U.S. Average
Critical Reading	499	502
Mathematics	516	515
Writing	498	494
Percent of Graduates Taking the SAT	49%	48%

Data: The College Board. SAT score averages of college-bound seniors and percentage of graduates taking SAT, by state or jurisdiction, 2006–07 — EdSource 9/08

Because universities in some states require the SAT college admissions test while others require the ACT, comparisons of SAT participation can be somewhat misleading. In California, the College Board reports that 48% of students projected to graduate in 2007 took the SAT. By comparison, 65% of high school graduates in Florida, 89% of graduates in New York, and 52% of graduates in Texas took the SAT. In Illinois, where students are more likely to take the ACT, only 8% of graduating students took the SAT.

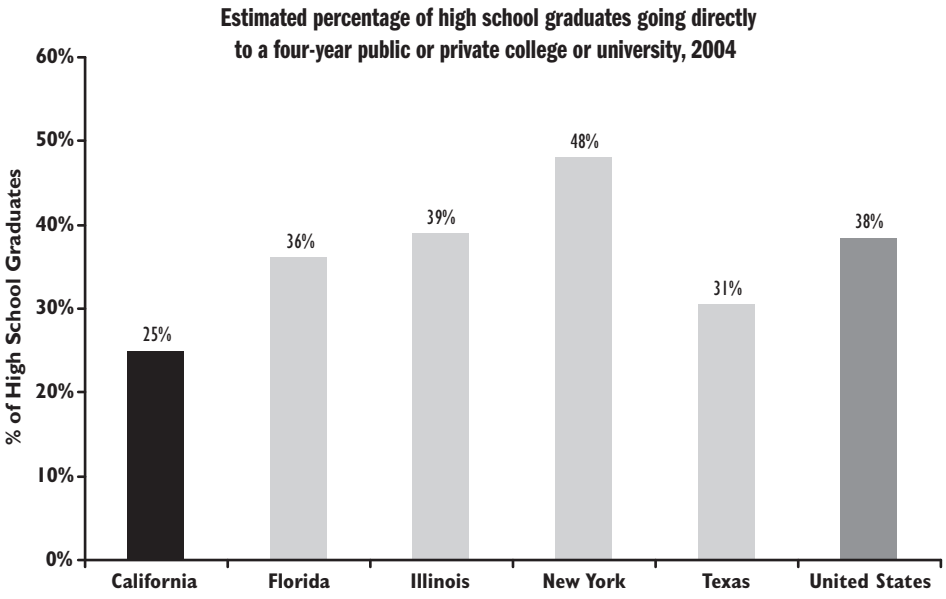
In 2007, 15% of California's graduating seniors took the ACT (U.S. average rate: 42%), according to ACT. The mean composite score for California was 22.1 compared with the U.S. mean of 21.2. Data are not available to determine how many ACT test takers took both tests and thus are included in the SAT total.

© Copyright 2008 by EdSource, Inc.

The percentage of California high school graduates who enroll directly in a four-year college is relatively low

California's public and private high school graduates were less likely to enroll directly in a four-year college or university than their peers in the other large states in 2004, according to the most recent estimates available.

This estimate is calculated by dividing the number of students who graduated from any high school in a particular state in the past 12 months and directly enrolled in a four-year college or university anywhere in the United States by the number of public and private high school graduates from that state. All data are not available for each year, so this estimate uses college enrollment data from fall 2004 and public and private high school graduate numbers from spring 2005.



Data: National Center for Education Statistics (NCES) *Digest of Education Statistics 2007*, Table 101; *Digest of Education Statistics 2005*, Table 204; *Private School Universe Survey*, 2005–06, Table 15.

EdSource 9/08

To Learn More

Demographics

- More data about the characteristics of California students are available from DataQuest, http://data1.cde.ca.gov/dataquest, and Ed-Data, www.ed-data.k12.ca.us.
- For more information about the state's English learner students, see EdSource's March 2008 report, *English Learners in California: What the Numbers Say.* www.edsource.org/pub_ELvitalstats3-08.html

Resources

- EdSource's website provides an explanation of California's school finance system. www.edsource.org/school-finance.html
- Data on per-pupil expenditures and staffing ratios for individual school districts in California over time can be found on the Ed-Data website. www.ed-data.k12.ca.us
- NCES offers the *Build a Table* tool that allows users to access multiyear Common Core of Data information. http://nces.ed.gov/ccd/bat

Student Achievement

- Copies of California's academic content standards can be found on the California Department of Education website. www.cde.ca.gov/be/st/ss/index.asp
- The NAEP section of the NCES website offers a number of website tools and applications. http://nces.ed.gov/nationsreportcard/about/naeptools.asp
- The California Postsecondary Education Commission provides more data on California students' college-going rates. www.cpec.ca.gov
- For detailed information on statewide test scores, go to the Testing & Accountability section of the California Department of Education website. www.cde.ca.gov/ta
- For an in-depth look at the achievement of the state's African American students, see EdSource's May 2008 report, *Raising African American Student Achievement: California Goals, Local Outcomes.* www.edsource.org/pub_AAachievement5-08_report.html
- For data on student achievement as well as student demographics and state resources, see EdSource's *2008 Resource Cards on California Schools*. www.edsource.org/pub_resourcecards4-08.html

© Copyright 2008 by EdSource, Inc.

CONCLUSION

National comparisons make it clear that California's public schools face a daunting task. They are being expected to meet demanding new achievement goals that apply to all their students. Yet they collectively educate a higher percentage of academically challenged students and are trying to do so with substantially fewer staff than other states.

Demographic comparisons show the formidable tasks that California schools face

With its 6.2 million school children, California is the largest state by far and one of the most ethnically diverse. Compared with other states, a higher proportion of K–12 students in California face academic challenges because they live in homes where their parents do not speak English and/or have not graduated from high school.

The sheer size and diversity of California make simply operating a state school system a much more complex and formidable task than what any other state faces. Texas, which is similar in its diversity, educates 2 million fewer children of whom only 16% are identified as English learners, compared with 24% in California.

During the past decade, these realities have made the state's task of implementing a new standards-based education system much more daunting than in states where the numbers are fewer and students' similarities outweigh their differences. But California's reforms are now largely institutionalized, if not fully implemented. In addition, the state's era of explosive population growth and dramatic ethnic change appears to be over. California can perhaps look forward to at least a few years of relative stability in terms of its student population.

California is behind most other states in the resources its schools have available

California's investment in its schools has also increased somewhat in the past 10 years relative to the national average. That said, in 2005–06 the state remains 7% or $614 *below* the U.S. average expenditure per pupil.

The data indicate that the increase that occurred between 2001–02 and 2005–06—from $7,055 to $8,486 per pupil (not adjusted for inflation)—did not put more teachers or other staff into the state's schools. Instead, it largely paid for a boost in average salaries, as indicated by teacher salaries. In the process, the state maintained a teacher wage level that is more comparable to other professionals than is the case in most other states.

The net result is that basic resources in California schools changed very little over this time. This state's schools are working with a higher proportion of academically challenged students, and doing so with three adults for every four available in schools nationally. That reality has not deterred state and federal leaders from pressing forward with accountability measures that have raised expectations and increased the pressures that the educators in the system face.

California students are making some progress, but not enough to meet NCLB benchmarks or the state's ambitious goals

California has set high expectations for the academic achievement of its students. Data indicate that here, as in many other states, the standards-based reform agenda—with its high-stakes assessment and accountability systems—has resulted in higher scores on state achievement tests.

Comparisons with national benchmarks also show that student achievement in California varies depending on the student groups in question. When English learners are not included in NAEP results, the state's student achievement scores come close to the national average.

© Copyright 2008 by EdSource, Inc.

The California students who take demanding SAT and AP tests do as well or slightly better than their peers nationally. Yet a smaller proportion of California high school graduates go directly to a four-year university.

Overall, California schools appear to be making important progress, but clearly they have much to do. Less apparent is how much more progress is possible and how rapidly it can occur without a real change in the resources available to California schools. This is particularly true for schools with a large number of students who face the most academic challenges, particularly those who need to learn English. In a year when the state is struggling to find funds to maintain the status quo, the possibility of such an increased investment seems very far away.

Acknowledgments

This report was written and researched by:

Mary Perry
Heather Barondess
Julian Leichty
Kathy Wilson

With support from:

Susan Frey
Brian Edwards

EdSource® Clarifying Complex Education Issues®

ACCURATE · INDEPENDENT · ACCESSIBLE · TRUSTWORTHY · BALANCED · IMPARTIAL · KNOWLEDGEABLE · TIMELY · THOUGHTFUL

EDSOURCE ANNOUNCES

its brand new website at

www.edsource.org

Offering *better navigation*, an *improved search function*, and *updated and well-organized content* about key California issues including school finance. Our new website will make retrieving California education information easier than ever before!

EdSource® Clarifying Complex Education Issues®

Trish Williams
EdSource Executive Director

2008–09 EdSource Board of Directors

Davis Campbell, President
President, California School Boards Association Governance Institute

Lawrence O. Picus, Vice President
Professor, Rossier School of Education, University of Southern California

Martha Kanter, Fiscal Officer
Chancellor, Foothill–De Anza Community College District

John B. Mockler, Secretary
President, John Mockler & Associates, Inc.

Susan K. Burr
Executive Director, California County Superintendents Educational Services Association

Carl A. Cohn
Distinguished Leader in Residence, College of Education, San Diego State University

Christopher Cross
Chair and CEO, Cross & Joftus, LLC

Kenneth F. Hall
Executive in Residence, University of Southern California

Reed Hastings
CEO, Netflix, Inc.

Gerald C. Hayward
Co-Director (Retired), Policy Analysis for California Education

Janis R. Hirohama
President, League of Women Voters of California

Santiago Jackson
Director, Office of Legislative and Governmental Affairs, Los Angeles Unified School District

Kelvin K. Lee
Superintendent (Retired), Dry Creek Joint Elementary School District

Jo A.S. Loss
President-Elect, California State PTA

Paul J. Markowitz
Teacher (Retired), Las Virgenes Unified School District

Amado M. Padilla
Professor, School of Education, Stanford University

Don Shalvey
CEO and Co-Founder, Aspire Public Schools

Gloria Taylor
Co-President, American Association of University Women–California

© Copyright 2008 by EdSource, Inc. *Please call or e-mail EdSource for reprint or dissemination permission.*

520 San Antonio Rd, Suite 200, Mountain View, CA 94040-1217 ■ 650/917-9481 ■ Fax: 650/917-9482 ■ edsource@edsource.org
www.edsource.org ■ www.ed-data.k12.ca.us

Selected Readings on California School Finance

Chapter 6
Concepts of Finance Reform

REPORT
April 2000

EdSource®

Clarifying Complex Education Issues

How Much is Enough?

Funding California's Public Schools

Expectations are rising for both California public schools and their students. In response, many educators and a growing number of other Californians are questioning whether the state's schools—as they are currently staffed and operated—have the capacity to deliver what is expected. And if they do not, to what extent is it because they are not adequately funded?

Indeed, various analyses, anecdotes from local schools, data comparisons with other states, and a growing political sentiment indicate that California's public schools are underfunded for the task at hand.

In California today, there is growing awareness that the call for higher standards has fiscal implications. Elsewhere in the United States that convergence is leading to a fundamental shift in the way courts, researchers, state policy makers, and educators are conceptualizing school finance. There is a growing emphasis on the idea of funding adequacy—that is, determining the level of resources schools should receive based on a definition of the educational goals of the system.

The adequacy approach attempts to answer two questions: How much money would be enough and where would it best be spent? This inquiry swiftly raises multiple issues:

- ✔ What is needed to give students equal access to educational opportunity?
- ✔ What level of achievement is expected from students?
- ✔ What are accurate and fair measures of what students and schools are accomplishing?
- ✔ What are the most important components for an effective education system?
- ✔ How do local differences affect the way resources should be used?
- ✔ How can the state responsibility for student achievement be balanced with the need for local flexibility to respond to differing circumstances?
- ✔ What can be done to make the system more efficient and more effective?

This report provides a framework in which Californians can explore these issues as they relate to school funding. Armed with a better understanding of the many factors that must be considered, perhaps the state as a whole can arrive at a well thought-out answer to the question, "How much is enough?"

The school finance system has evolved over the past three decades

Historically in the United States, local property taxes were the major source of funding for public schools, and the tax rate was locally determined. This often led to dramatic differences in school funding, usually depending on the relative property wealth of the surrounding community.

Equal funding was meant to equalize students' opportunities

In the last 30 years, this property tax–based approach to school funding has gradually given way, usually by court order, to systems that attempt to create greater funding equity among school districts. The underlying assumption is that a clear relationship exists between how much money schools receive and how well their students are educated.

This rationale is summarized in *The Future of Children: Financing Schools*, a 1997 publication by the David and Lucile Packard Foundation. "Schooling matters. Decades of research confirm that both the quality and the quantity of schooling are strongly associated with increased

Inside This Report

The School Finance Debate in California 4

Defining "Adequate" Starts with Clarity About Goals 10

What California Needs to Meet New Expectations 13

EdSource Surveys Superintendents 14

California Can Learn from Other States' Experiences 17

Where California Can Go from Here 23

© Copyright 2000 by EdSource, Inc.

Trish Williams
EdSource Executive Director

1999–2000 EdSource Board of Directors

Sherry Loofbourrow, President
Governance Consultant, California School Boards Association

William Moore, Vice President
Vice Chairman of the Board, California Casualty Group

Gail Dryden, Secretary
President, League of Women Voters of California

Gerald C. Hayward, Fiscal Officer
Director, Policy Analysis for California Education

William Chavez
President, Strategic Education Services

Carl A. Cohn
Superintendent, Long Beach Unified School District

George Datz
Chair, Educational Congress of California

Eugene Garcia
Dean, Graduate School of Education, University of California, Berkeley

Robert G. Haskell
Senior Vice President, Public Affairs, Pacific Life Insurance Company

Mary Lynne Ishikawa
Social Policy Director, League of Women Voters of California

Donnell Jordan
Teacher, Desert Sands Unified School District

Kelvin K. Lee
Superintendent, Dry Creek Joint Elementary School District

Cecelia Mansfield
Vice President for Education, California State PTA

Lavonne McBroom
President, California State PTA

John Mockler
Executive Director, State Board of Education

Peter Schrag
Contributing Editor, Sacramento Bee

Krys Wulff
President, American Association of University Women–California

income, better health, lower levels of criminal activity, and less reliance on public assistance. The justification for public financial support of schooling is both civic and personal. Schools are expected to prepare children for the responsibilities of citizenship and to improve their individual economic prospects and quality of life."

During the 1970s and 1980s, many state courts found great disparities in base per pupil spending between high and low property-wealth districts. They mandated that these funding disparities be eradicated. In placing districts on a level fiscal playing field, the courts often invoked equal protection clauses in state constitutions to establish that state governments have an obligation to equalize students' access to educational opportunities and thus life chances.

The courts, voters, and legislators have shaped California's funding system

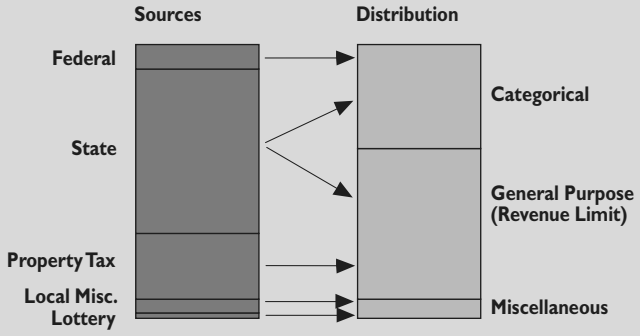
Begun in 1968, the *Serrano v. Priest* court decision in California (see box) was one of the earliest of these legal suits. The tenets of that decision began reshaping the school funding structure in California in the early 1970s. In the years following, many related state laws and constitutional amendments were passed. They included:

- ✔ Proposition 13: Passed by voters in 1978, this constitutional amendment resulted in a dramatic reduction in the amount of local property tax revenue available for cities, counties, other special districts, and especially for schools.
- ✔ AB 8: This legislation implemented Proposition 13 and shielded schools from some of the measure's effects. In the process the state replaced the lost property taxes and effectively took control of school funding.
- ✔ Proposition 98: This 1988 voter-approved initiative guaranteed K–14 schools (kindergarten through community college) a minimum level of funding depending on the state's tax revenues.

More recently, a plethora of new categorical programs have been created. In some cases, these programs have addressed differential student needs. But most recently they have also been a way for state policy makers to pressure school districts into certain types of expenditures

Figure 1

Funding for California's Public Schools Comes from Several Sources



In this diagram, the column on the left shows the five sources of money for schools in California. The column on the right shows how the different sources feed into school district budgets. The categorical portion is earmarked by either the state or federal government for specific purposes or categories of students.

State funds and property taxes are the funds included in the Proposition 98 guarantee and make up more than 80% of total education funding in California.

For 1999–2000, the total estimated revenues for K–12 education were $44.2 billion from these sources:

- ✔ Federal government **$4.2 billion**
- ✔ State funds **$26.1 billion**
- ✔ Local property taxes **$10.1 billion**
- ✔ Local miscellaneous revenues **$3.1 billion**
- ✔ Lottery **$0.7 billion**

These funds were provided to educate a projected 5.6 million (ADA) California public school students. ADA is Average Daily Attendance.

Data: Office of the Legislative Analyst EdSource 4/00

The *Serrano* decision left its legacy in California

Begun in 1968, the *Serrano v. Priest* court case was one of the first lawsuits to challenge the U.S. tradition of locally funding public schools.

The plaintiffs charged that California's school finance system, based on local property taxes, was unconstitutional. When the case was settled in the mid-1970s, the courts required the California Legislature to find a way to finance schools that would be more equitable for both taxpayers and students. The charge to state leaders, based on equal protection under the law, was to reduce property wealth–related disparities to $100 per student.

The focus was on general purpose money

The focus of both the *Serrano* decision and the resulting school funding system developed by the Legislature was the equalization of base, or foundation, funding for schools. Often called general purpose money, this is allocated on a per pupil basis to provide for the day-to-day operation of the school district.

The Legislature created a system of "revenue limits" for moving the base revenues for each type of district—elementary, unified (K–12), and high school—to within a $100 spread commonly called the *Serrano* band. To achieve equalization, the Legislature granted higher increases to the low-spending districts and held down the increases to high-spending ones from 1979 to 1983. The court accepted this system, and a later court ruling allowed the adjustment of the band for inflation. In 1999–2000 it is estimated at $343 per student.

The courts required that the vast majority of the state's students be served in districts whose general-purpose revenues fell within the *Serrano* bands. By 1983, the percentage of students had reached 98% overall and the *Serrano* case was officially closed.

Equity did not mean equal revenues

However, the *Serrano* decision did not call for equalization of all funding for schools. Some differences in funding were purposely allowed.

In its approach to equalizing base funding for school districts, the state used a mechanism called the revenue limit. The revenue limit is the amount of general purpose money each district may receive from a combination of state taxes and local property taxes. Revenue limits were calculated for each district based on historical spending patterns and originally varied considerably. The court accepted different revenue limits for large and small elementary, high school, and unified districts, effectively creating six separate *Serrano* bands. The guiding principle was that high school programs were costing more to operate and thus needed a higher level of funding per pupil. This was again based on historical expenditures rather than an analysis of actual program needs.

As Figure 3 on page 6 illustrates, high school districts today have the highest revenue limits on average, elementary districts the lowest, and unified districts receive an amount in between. The state also provides additional funds for the smallest school districts. This is based on the premise that school districts with a very small number of students cannot take advantage of some of the economies of scale their larger counterparts enjoy. As is clear from the chart, a number of funding anomalies still exist within the current revenue limit system, though it has been accepted by the courts.

The *Serrano* decision also specifically excluded categorical programs from the equalization formulas. These are programs for which funds are earmarked, often in order to provide additional services to particular groups of students. Special Education for disabled students is an example.

At the time, categorical programs were primarily used to help districts meet special needs either based on student characteristics or special district circumstances. The widespread use of categoricals for state- and federally-inspired instructional programs is a more recent phenomenon. Today, California has more than 80 categorical programs, and about one-third of education revenues are earmarked for specific purposes.

The effect on low-income communities has varied

In looking at the problems with a property tax–based school finance system, courts considered both property values and property tax rates. In high property-wealth districts, lower tax rates yielded above-average revenues for educational expenditures. Conversely, low property-wealth districts—even with higher tax rates—could not raise as much money for their public schools.

It is important to note that high property wealth does not necessarily equate to high personal wealth on the part of a school district's families or residents. Areas with substantial business or industrial property and thus substantial tax revenues, for example, may serve extremely needy children. Thus, the *Serrano v. Priest* decision has not uniformly resulted in increased financial support for schools with students who live in poverty.

In a February 2000 report entitled *For Better or For Worse? School Finance Reform in California*, the Public Policy Institute of California provides evidence that disadvantaged students as a whole have not benefited from the *Serrano* decision. "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 inequality at the district level did not help disadvantaged students as a whole."

and programs. These have ranged from longer school days to smaller class sizes to specific professional development programs.

Together, these laws and regulations have evolved into an extremely complex state-controlled school finance system. But while California's current system in its entirety has few friends, each particular funding mechanism and provision has advocates who work hard to protect their particular interests. Those competing special interests make the prospects of revamping the system daunting for politicians and educators alike.

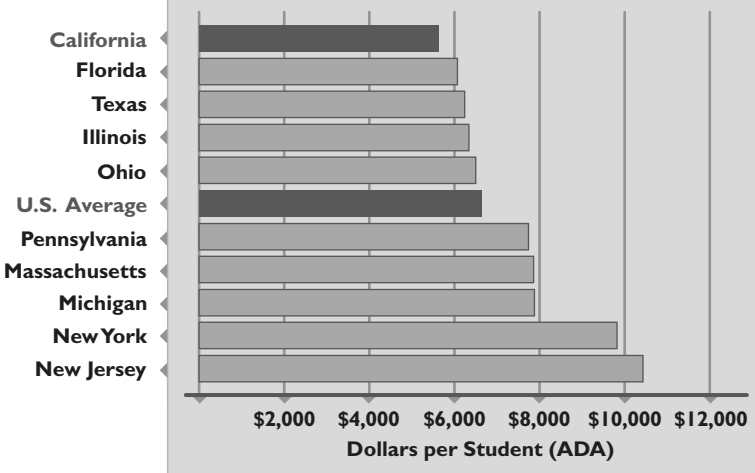
The school finance debate in California focuses on the amount, distribution, and effectiveness of funding

Within the context of California's highly complex school finance system, both the level of funding and the allocation process raise controversy and frustration. The key issues include:

- ✔ The level of overall funding, particularly based on national comparisons.
- ✔ The differences in the revenues school districts receive.
- ✔ The uneven distribution of educational resources, such as quality teachers, across California's more than 8,000 public schools.
- ✔ The efficiency and effectiveness of current expenditures, including the extent to which spending decisions should be made at the state versus the district level.

Figure 2

California Ranks 40th in the United States and Last Among 10 Industrial States



1997–98 Expenditures per Student (ADA)

As defined by the National Education Association (NEA) for the purpose of these comparisons, "current expenditures per student" measures the operating expenses of K–12 schools, the costs of running schools day to day, including the costs of county offices of education and state departments of education. It does not include expenditures for constructing or renovating buildings (capital outlay), but it does include the cost of building maintenance. It also excludes interest paid on school district debt and costs for pre-school and adult education, even if those are administered through a K–12 school district.

Data: *Rankings of the States 1999,* National Education Association

EdSource 4/00

Most other states spend more per student than California

General purpose funding within California appears to be more equitable than it was prior to the *Serrano* decision. However, in the process of equalizing funding within the state, California has actually made itself less equal to other states, according to a research report, *For Better or For Worse? School Finance Reform In California*. The report was published by the Public Policy Institute of California (PPIC), an objective, nonpartisan research foundation.

"In the aftermath of Proposition 13," the February 2000 publication said, "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.…Between 1970 and 1997, spending per pupil in California fell more than 15 percent relative to spending in the rest of the country."

Various comparisons between California and other states are available, and most use the "per pupil expenditure" figure as the yardstick for comparison. This number reflects the money school districts spent, not the money they received. Therefore it varies somewhat from the revenue amounts previously mentioned in Figure 1 (on page 2). It nonetheless provides an important and often referenced measure that shows that California's public schools have had less money to work with than the majority of their counterparts, particularly in the nation's other large, urban industrial states.

Figure 2 illustrates the great differences in per pupil spending that exist between California and

the other industrial states. The average per pupil expenditure in New Jersey, for example, was almost double the California average in 1997–98.

The differences become more marked when the figures are adjusted for the cost of living in California, as was done by *Education Week* in its January 2000 report, *Quality Counts*. This analysis used as criteria:

- ✔ education spending per student, adjusted for regional cost differences;
- ✔ the percentage change in inflation-adjusted education spending per student (from 1988 to 1998); and
- ✔ the percent of total taxable resources spent on education.

On this basis, *Education Week* gave California a D- for funding adequacy.

As California has increased its per pupil funding in recent years, public interest in the state's position vis-a-vis other states has also increased. Many observers are frustrated by the fact that most state-to-state comparison data is two years old. This has led to invalid comparisons from some government leaders, members of the media, and researchers. Some groups have used such comparisons to assert that California school expenditures are no longer lower than the national average. They based their analyses, however, on an apples-to-oranges comparison that contrasted projected California revenues with estimated national expenditures for previous years.

In *For Better or For Worse?*, PPIC concludes that the difference in spending on K–12 education between California and other states reflects a choice by California and its state leadership, rather than an inability to pay. The report notes that while the state's per capita spending on education is below much of the rest of the country, its per capita personal income remains higher than average. In addition, its general population has grown at the same pace as public school enrollments.

Differences in district revenues cause frustration for educators

California educators often decry the low level of revenues school districts receive compared to other states. This may also help explain some of their continuing complaints regarding unequal funding between districts in the state. When people perceive that they are not receiving adequate funding in the first place, even minor inequities can matter a great deal. But to fully understand the issues of funding equity in this state, one has to look both at base revenues, which are relatively equal, and at categorical funds, which can create dramatic differences in total revenue.

Base revenues are equitable, within the parameters of the *Serrano* decision

On paper, the differences in base revenues among school districts are within a relatively narrow band, with a very small number of students in the districts that are exceptions. This does not prevent some school districts from complaining bitterly about the differences that do exist.

One catalyst for these complaints was the 1998 recalculation of revenue limits based on a change in the definition of Average Daily Attendance (ADA). Previously, ADA was equal to the number of students in attendance plus those students who missed school but had a permissible excuse such as illness. Those excused absences were excluded from ADA beginning in 1998–99. At the same time, the state recalculated revenue limits to attempt to protect districts with high excused absences from a net loss of income. This resulted in some other districts moving from the top to the bottom of the *Serrano* band, raising numerous complaints. To respond to this issue, the Legislature passed AB 2460, directing the Office of the Legislative Analyst (LAO) to evaluate the situation. As Figure 3 (on page 6) shows, the LAO demonstrated that just 25 school districts, serving fewer than 8,000 students, have a revenue limit below the *Serrano* band.

Presumably, many of the complaints came from districts funded within the band but envious of those who received more. Of course, the revenue limit is just one part of the picture, particularly when it constitutes only about two-thirds of total funding on a statewide level.

Earmarked funds create differences that do not always correspond with student need

The finding that base revenues to school districts are fairly even does not account for some dramatic differences in total revenues. These are caused primarily by differences in the amount of categorical funding districts receive. For example, in

"Between 1970 and 1997, spending per pupil in California fell more than 15 percent relative to spending in the rest of the country."

For Better or For Worse? School Finance Reform In California

Public Policy Institute of California

1997–98, Western Placer Unified School District received a total of $553 per pupil in categorical aid, about 12% of the district's total per pupil revenues of $4,447. San Diego Unified, on the other hand, received $2,004 per pupil from categoricals, or 34% of its $5,942 in per pupil revenues. Similar variations can be found within counties and between districts that share much in common.

The first categorical programs were created to address differences in student need. Thus, many might expect that the variations in categorical funding between California school districts could be explained by differences in student characteristics, with more funds going to districts that serve a high proportion of students with special needs. An EdSource analysis of the data, however, revealed no definitive relationship between student characteristics and total school district revenues. This probably reflects the growing tendency among state, and to some degree federal, lawmakers to earmark funds for specific educational programs and reforms that have nothing to do with student differences. In California, the result has been tremendous growth in categorical programs and a distribution of resources that is

Figure 3

Most Districts Fall Within the *Serrano* Band

The following table includes revenue limits for all school districts. In approximately 60 of these districts, local property tax revenues exceed the revenue limit. These "Basic Aid Districts" are allowed to keep the excess property taxes and receive $120 per pupil in constitutionally guaranteed basic aid from the state. Thus they have more money for general purposes than their revenue limit amount.

1998–99 Revenue Limit Amounts

Type of district	Lowest revenue limit	# of dists. and total ADA* below *Serrano* band	Range of revenue limits within *Serrano* band	# of dists. and total ADA within *Serrano* band	Highest revenue limit	# of dists. and total ADA above *Serrano* band
Large Elementary (>100 students)	$3,793	1 district, 310 students (ADA)	$3,840 to $4,168	438 districts, 1,086,402 students (ADA)	$5,556	39 districts, 43,352 students (ADA)
Large Unified (K–12 >1,500 students)	$3,980	none	$3,980 to $4,300	229 districts, 3,601,754 students (ADA)	$6,144	26 districts, 139,766 students (ADA)
Large High School (>300 students)	$4,575	none	$4,575 to $4,895	83 districts, 484,651 students (ADA)	$5,678	4 districts, 3,270 students (ADA)
Small Elementary (<100 students)	$3,888	20 districts, 1,415 students (ADA)	$4,763 to $5,092	66 districts, 2,978 students (ADA)	$7,729	8 districts, 303 students (ADA)
Small Unified (K–12 <1,500 students)	$3,954	4 districts, 5,635 students (ADA)	$4,204 to $4,508	51 districts, 36,026 students (ADA)	$5,742	13 districts, 5,182 students (ADA)
Small High School (<300 students)	$5,118	none	$5,188 to $5,378	6 districts, 1,079 students (ADA)	$5,378	none
TOTALS		**25 dists. & 7,360 students (ADA)**		**873 dists. & 5,212,890 students (ADA)**		**90 dists. & 191,873 students (ADA)**

*Average Daily Attendance

Data: Office of the Legislative Analyst, 1999

EdSource 4/00

less targeted to disadvantaged students. Thus, need-based programs have become a smaller portion of the total and have less impact on a district's funding relative to the total.

This is not to say that categoricals funded based on student characteristics have disappeared. As Figure 4 shows, they still represent just more than a fourth of state categorical funding. They also constitute about three-fourths of the federal funding that goes to California schools, which was more than $4 billion in 1999–2000.

"Educational resources" are unevenly distributed among school sites

As in most states, school districts are the primary fiscal agents for receiving funds and reporting expenditures in California. While some school districts compile school-level financial data for local use, they are not required to do so or to report the data to the California Department of Education (CDE). Thus financial data at the school level is not generally available.

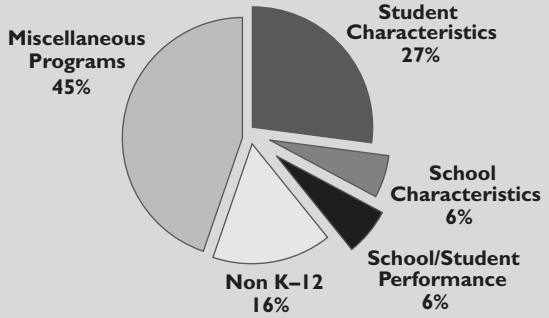
Despite this lack of information, researchers have attempted to look at differences in support from school to school. They have done so by substituting nonfinancial measures such as quality teachers and rigorous curriculum, which are sometimes referred to as "educational resources." This research indicates that significant variations exist in both teacher quality and curriculum offerings. Further, those school sites with the poorest of these resources often tend to be those that serve the highest proportion of low-income children.

School sites serving poor students are less likely to have qualified teachers

While "teacher quality" is in many ways hard to define or quantify, researchers have independently used very similar measures. A teacher's experience, education, and credentialing are increasingly seen as barometers of quality, but not without some caveats. In a 1999 study, *Class Size Reduction in California 1996–98*, California's CSR Research Consortium makes this point specifically. "It is important to remember that while these characteristics may be related to quality, they are not direct measures of a teacher's effectiveness in a classroom."

Figure 4

About One-Third of State Categorical Funds Address Needs Based on Student and School Characteristics



Proportion of State-Funded Categorical Programs by Purpose, 1999–2000. (Includes programs receiving more than $25 million.)

Student Characteristics	Special Education, Desegregation, Economic Impact Aid, Child Nutrition, English Learner Assistance, Gifted & Talented Education, Community Day Schools
School Characteristics	Transportation, Year-Round School Calendar
School/Student Performance	Summer School & Remedial Programs, High Achieving Schools Awards (GPAP), Immediate Intervention/Underperforming Schools (II/USP), Pupil Testing, Teacher Performance in II/USP
Non K–12	Child Development, Adult Education, English Language/Adults (Prop 227), Healthy Start
Miscellaneous Programs	Class Size Reduction (K–3&9), School Improvement Program, ROC/P, Instructional Materials-Standards, Staff Development Day Buyout, School Library Materials, Instructional Materials (K–8, 9–12), Deferred Maintenance, Digital High School, Per Pupil Block Grant, Mentor Teacher/Peer Assistance & Review, Reading Program, School Safety Block Grant, Categorical Block Grant, Beginning Teachers Support & Assessment, Beginning Teachers Minimum Salary, Tobacco Use & Prevention Education, Miller-Unruh Reading, Classroom Library Materials

Data: Office of the Legislative Analyst and California Department of Education

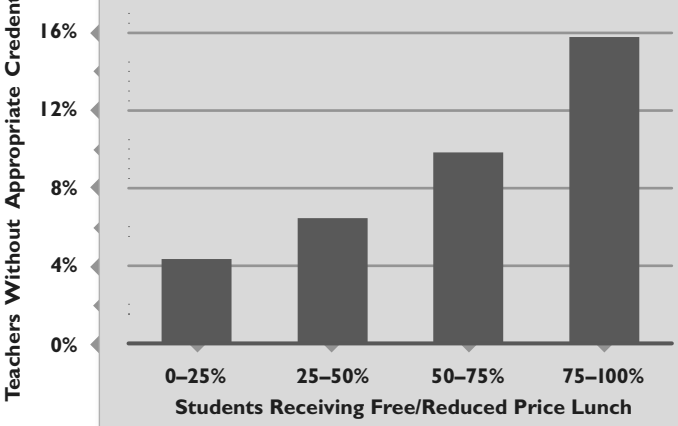
EdSource 4/00

In research conducted by SRI International and sponsored by the Center for the Future of Teaching and Learning, substantial inequities were found in teacher quality based on the socioeconomic status (SES) of a school's students. (See Figure 5 on page 8.)These findings echo those of many other researchers, including the CSR Research Consortium.

In its 1999 publication, *The Status of the Teaching Profession*, the center concludes: "Those students in greatest need of effective teachers are the most likely to be in classrooms with under-

Figure 5

The Poorest Students Have the Least Qualified Teachers



Distribution of Underqualified Teachers by Student Poverty Level, 1997–98

For this study, the Center for the Future of Teaching and Learning defined "underqualified teachers" as those who hold an emergency permit, credential waiver, or intern certificate.

Data: SRI analysis of data from California Department of Education, 1999

EdSource 4/00

qualified teachers. In fact, the distribution of qualified teachers is quite uneven across the state. Students in poor, inner-city schools are much more likely than their more advantaged suburban counterparts to have underqualified teachers."

PPIC also explored this issue in its February 2000 report, *Equal Resources, Equal Outcomes?* They found that the distribution of qualified teachers not only varies across schools throughout the state but that it often varies across schools within the same district. Teacher assignments are typically decided at the district level, but the process varies by district and must be negotiated with teacher unions.

Access to rigorous high school curriculum provides another measure of equity

California schools also appear to vary in the rigor of the curriculum they offer, at least at the high school level. The best available measure of this is the number and percentage of advanced course offerings a high school provides, including Advanced Placement (AP) courses and those that satisfy the entrance requirements at California's public universities (called the a-f courses).

Two separate studies recently conducted by the PPIC and the California State University Institute for Education Reform (CSU-IER) indicate the following:

- ✔ California high schools vary somewhat in the availability of a-f and AP courses by student socioeconomic status, student ethnicity, school location, and school size.
- ✔ Small, rural schools offer the lowest percentages of a-f and AP classes in their curriculum.
- ✔ African American and Hispanic students are disproportionately low in their participation in AP courses, and this holds true across all variations in AP class availability.
- ✔ Asian American students' participation is disproportionately high and white students' participation is proportional.

Both PPIC and CSU-IER researchers warn against drawing too many conclusions from these generalizations. They report finding many exceptions throughout their data collections.

The available statistics do not explain why these differences in availability and student participation exist. The variations may be due to uneven access to funding or appropriately trained teachers. They may reflect a lack of awareness or a lower demand for rigorous academic programs on the part of certain school administrators, teachers, parents, or students. Low participation may also result from cultural attitudes or from a lack of necessary academic preparation prior to the high school years. Effectively addressing the issues of equal access to a rigorous high school curriculum would require better information about these issues.

Community support varies substantially

With the shortage of funds in many California schools, school principals and other educators have become more aggressive in soliciting financial support from their communities. Field trips, after-school sports, library clerks, computers, library books, arts education, and school assemblies are among the most common "extras" paid for by parent organizations, corporate partners, and local education foundations. Some private foundations and corporations have targeted their support to schools and districts with low-income students.

Parent and community support can vary substantially, and in California's wealthiest communities local education foundations have been known to raise sizable amounts per pupil. In *For Better or For Worse?*, PPIC attempted to look at this more systematically by examining the income tax statements filed by nonprofit organizations affiliated with schools, such as parent-teacher organizations and local education foundations. PPIC found that "a few schools in wealthy areas received more than $500 per year per student in voluntary contributions." Conversely, they report that "90% of California's students attended schools in which such contributions amounted to less than $100 per pupil." PPIC notes further that these contributions have not been enough to affect overall equity among districts.

Doubts about efficiency and effectiveness haunt the discussion

While California's schools may be underfunded—and neither revenues nor educational resources are evenly distributed—the way that school districts spend existing funds can also be problematic. Many critics of public schools accuse them of wasting the funds they receive or of, at least, not using them well. Educators are certainly aware of these criticisms and in some cases may agree. Lawrence Picus, professor of education at the University of Southern California, puts it succinctly: "We need more money for schools in California, but that money should not simply be given to school districts to spend as they have in the past. Rather, it is important to create incentives for districts to use funds in ways that research shows do improve student learning.…In short, we need more money, but we need to spend it more wisely."

Public resources are scarce and competition for them is fierce. The public certainly also has a right to demand accountability and academic results in return for their tax contributions. Accordingly, both school and state officials are under tremendous pressure to see that public education dollars are well spent.

Generally, this issue has two different aspects. One is efficiency, which involves the management of public funds. The other aspect is whether money is allocated as effectively as possible to achieve educational goals—a more complicated question that is also more difficult to answer clearly.

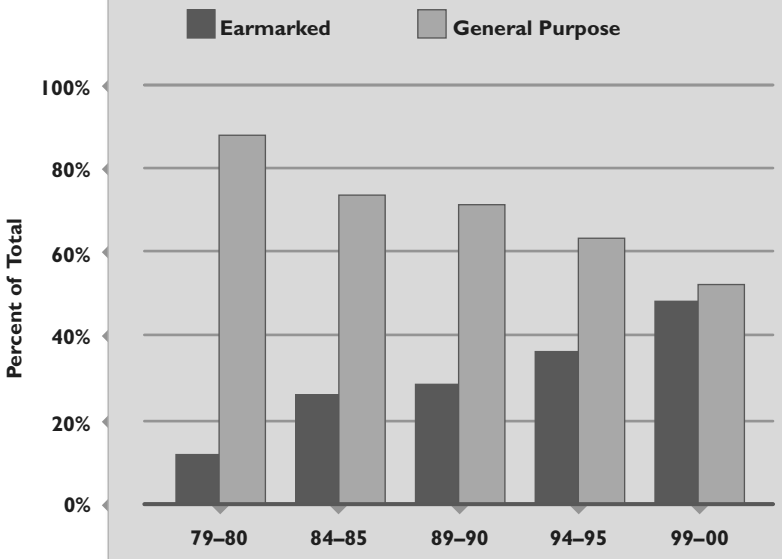
Serious mismanagement is rare but very visible

School district officials vary in their skills as money managers and their conscientiousness in protecting the public trust. Overall, however, California public school districts operate within the state's guidelines of fiscal responsibility. Further, they spend the funds they have in much the same way as school districts do in other states. Unfortunately, the reported cases of serious mismanagement—such as Oakland and Compton—receive widespread attention and can undermine public and policy maker confidence in school district administration.

From a state policy perspective, the issue of school district mismanagement has been addressed in several ways in California. Various reviews and safeguards exist to protect the public interest. They include independent financial audits of district finances, county office oversight, and the provision for state takeover in extreme situations. Despite some instances of mismanagement, it is

Figure 6

An Increasing Proportion of State Funds Are Going to School Districts with Strings Attached



In 1978–79 categorical and other earmarked funds represented 11% of state funds for education, compared to 48% this year.

Data: Governor's Budget, various years

EdSource 4/00

"We are trying to adjust to the most challenging issues of student diversity in the nation with a second-class budget. Additionally, mandates from our state government limit our ability to use our resources effectively."

Glenn Massengale, Superintendent

Barstow Unified School District

EdSource Superintendent Survey, 2000

doubtful that the amount of money "wasted" would be sufficient to substantially improve the effectiveness of the education effort in the state as a whole. In addition, it is unfair to generalize about the operations of all 988 California school districts based on the actions of just a few.

Earmarked funds force a balancing act between effectiveness and efficiency

In recent years, California state policy makers have tried to make schools more effective by earmarking a growing proportion of the funds school districts receive. (See Figure 6 on page 9.) Programs like class size reduction and PAR, the peer assistance and review program for teachers, carry with them assumptions about the need for uniformity across the state. State leaders can also assure, through this type of earmarked funds, that school districts use the money the way policy makers believe is appropriate.

Increased regulatory requirements create extra expenses related to documentation, accounting, and enforcement, however. Many argue that they can lead to serious inefficiencies, taking funds away from the classroom where they would be more effective in improving student performance. Opponents of earmarking also balk at the statewide "one-size-fits-all" approach that limits districts' ability to address unique local problems and circumstances creatively.

State leaders' actions to reduce local school district discretion over spending seem to some to be at cross-purposes with California's simultaneous creation of a strong accountability system. In its analysis of the governor's 2000–01 budget proposal, the Office of the Legislative Analyst (LAO) states: "If the state is going to hold local school districts accountable for improving student performance, it is essential that these same districts be given the resources and local budgetary discretion to allocate resources based on local needs. Without these resources and flexibility, districts are severely constrained in their ability to make necessary changes and improvements in programs and operations."

While many quarrel with the wisdom of state earmarking, the trend reveals a growing realization in California that school funding can be used to leverage improvement. This realization has occurred at the same time as the increased focus on standards-based education reform.

In *The Dynamics of School Resource Allocation*, University of Wisconsin–Madison researchers Allan Odden and Sarah Archibald highlight the intersection between education reform and the use of school resources, particularly as it relates to efficiency. "Today's prime education reform goal is to teach all students to high standards," they write. "One message embedded within this goal is that reform is focused on all students, or at least all but the most severely disabled students. However, teaching all students to high standards means raising performance much more and at a faster pace than resources will rise. Most analysts predict that resources will rise by only 25% in real, per pupil terms over the next 10 years, the period of time in which we want to double or triple the portion of students now achieving at performance standards. Thus, underneath the stated goals of current education reform is the unstated imperative to improve the productivity of the system."

Defining "adequate" starts with clarity about the system's educational goals

The idea of educational productivity can inform how education dollars are spent. But it also assumes that the level of school funding is in some way linked to the expectations for school system performance. The creation of this linkage—which means using the concept of adequacy to set policy regarding school funding—can be seen as a three-step process. (See the diagram on page 11.)

Higher expectations for student achievement form a foundation for determining funding

First, an "adequate education" must be clearly and explicitly defined. Then the state can determine what schools need in order to provide that education, both in terms of the components of an effective system and the money needed to pay for it.

Defining an "adequate education" is thorny business. In other states, courts have ruled on the issue in two different ways. Some have decreed that adequate means a basic level of education is offered to all, a test the states in question have generally met by having space in a classroom for every child. More recently, state courts have overturned school funding systems based on

the notion that basic is not enough. They say that an "adequate education" is one that provides the level of learning and skills now required to function well as citizens and find a place in today's work world.

The task of determining that set of desired skills and knowledge generally falls on state policy makers and educators to resolve. To the extent that a state has determined performance standards, the courts could be expected to define adequacy to mean the provision of programs and services sufficient for a student to meet those standards.

Despite several obstacles, California is striving to establish new high standards

Without any court mandate, California has made some progress in defining its academic standards for an adequate education. Starting in 1996, the state began adopting academic content standards that describe what should be taught at all grade levels in the core curriculum areas. Those standards are generally seen as quite high. Local districts are in various stages of implementing the curriculum and instruction needed to comply with the standards, which are technically voluntary.

In 1999, Governor Gray Davis and state legislators took a more assertive step by mandating a high school exit exam. This test—which high school students will be required to pass beginning in 2004—is meant to bring further clarity to the level of education California considers "adequate" in its public schools.

The steps for getting to an "adequate" public education system

Define an **adequate education**. → Identify the components of an **adequate system** capable of delivering that education. → Provide **adequate funding** to support the system as described.

"Adequate" is used here in its more encompassing sense to describe the goals or vision for an education, a school system, and a funding level appropriate to the educational needs of the 21st century. This is in contrast to defining "adequate" as basic or the minimum acceptable.

Standards and measurements are not yet fully developed or aligned

California has faced a difficult and divisive challenge in attempting to measure school and student performance based on its standards. Some of this reflects a problem of timing. The state adopted a new statewide testing system before its academic content standards were completed and is left struggling to bring the two into alignment. It embarked on a new accountability system without waiting for that alignment to be completed or for other measures of system performance to become available. Thus, schools began being held accountable for performance based on one nationally-normed test of basic skills—the Stanford Achievement Test, Ninth Edition, or SAT-9—which falls short of measuring what the state standards say students need to know and be able to do. In addition, many districts have not yet completed the process of aligning their curriculum and instruction with either the standards or the SAT-9.

The lack of alignment has created significant tensions in the state. It also may have obscured some broader agreements that California's policy makers and educational leaders share. For example, according to the SAT-9 and a variety of other measures, the California public school system is clearly working for some students. And in those cases, the student outcomes are consistent with the state's expectations, even at the very highest levels. At the same time, vast discrepancies in student performance exist, most often along socioeconomic lines, with less privileged students performing less well as a group. In California, the high proportion of

State graduation requirements do not match new expectations

California's academic content standards are requiring schools to meet new expectations. Math provides a good example.

The existing state high school graduation requirement is two years of mathematics, with little specificity about course content and certainly no requirement for algebra. Only those students aiming for college have been routinely required or expected to take it, and often do not do so until 9th or even 10th grade.

However, California's new academic content standards for 8th grade include the skills and content taught in algebra. And an understanding of first-year algebra is required to pass the new high school exit exam. This has implications for every level of the system, from what math is taught in second grade to the continuing problem of a shortage of math teachers at the secondary level.

"Our state standards, while creating some difficult issues, will turn out to be a very positive step in educating young people."

Robert Lowden, Superintendent

Trinity Union High School District

EdSource Superintendent Survey, 2000

students learning English adds additional challenges. The overall level of student performance appears to be no more acceptable to educators than it is to policy makers or the public.

California has yet to determine student performance standards as well as what obligations the state education system has to the lowest and highest achievers. In addition, what part of student achievement is the schools' responsibility and what is beyond the schools' control or outside of its charge?

The effects of poverty on student achievement present an extra challenge

If California decides to use a student-achievement goal to define and measure the adequacy of public education, it faces another formidable challenge. The state must decide how it will deal with the very real effect that poverty has on student achievement.

In its report *Equal Resources, Equal Outcomes?* PPIC looked at how a school's resources and student characteristics related to student achievement. The authors reported: "Among *school resources*, the level of teacher experience and the percentage of teachers without a full credential are the variables most strongly related to student outcomes. However, the most important factor relating to student outcomes is SES [socioeconomic status]." (See Figure 7.)

The clear implication is that schools alone are not able to compensate for poverty's effect on student achievement, at least not within the parameters of the current system. In a January 2000 article in *New York Times Magazine*, James Traub reflected on some of the research and the implications for school improvement. "The idea that school, by itself, cannot cure poverty is hardly astonishing, but it is amazing how much of our political discourse is implicitly predicated on the notion that it can," wrote Traub, a contributing editor. "An alternative explanation, of course, is that educational inequality is rooted in economic problems and social pathologies too deep to be overcome by school alone. And if that's true, of course, then there's every reason to think about the limits of school, and to think about the other institutions we might have to mobilize to solve the problem."

Low funding may limit schools' capacity for improvement

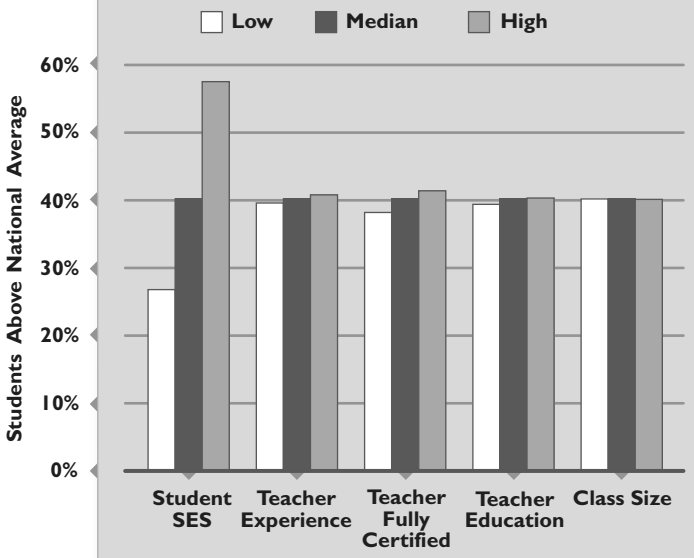
The concerns about performance measures and the number of disadvantaged students complicate Californians' ability to agree on what is necessary to improve public education. However, the general consensus is that the expectations for students as a whole need to be higher to meet state standards. That, in turn, will require improvements in the system.

Many educators, along with other concerned Californians, say that the state's funding is inadequate to the task. Put another way, the push for a better school system and increased student performance can only be accomplished if schools have adequate resources with which to do the job, and California's public schools do not currently have those resources.

California policy makers do not seem inclined to simply "throw money at the problem,"

Figure 7

Poverty Has a Greater Effect on Student Achievement than any Single School Characteristic



Succeeding with students who live in poverty may well be educators' greatest challenge.

Data: *Equal Resources, Equal Outcomes,* Public Policy Institute of California, 2000 EdSource 4/00

The California Constitution does not address the issue of adequacy

California has not faced a constitutional challenge to its school system based on adequacy due, in some measure, to the wording in the state Constitution.

The California Constitution (Article IX, Section 5) establishes the state's obligation to provide public education by simply stating: "The Legislature shall provide for a system of common schools by which a free school shall be kept up and supported in each district at least six months in every year…."

The Constitution also states the following legislative policy in regard to education (Article IX, Section 1). "A general diffusion of knowledge and intelligence being essential to the preservation of the rights and liberties of the people, the Legislature shall encourage by all suitable means the promotion of intellectual, scientific, moral, and agricultural improvement."

however. In many other states, like-minded leaders have first sought greater clarity about what constitutes an adequate public education system. An exploration of that, many believe, is essential in order to get to a reasoned determination about how much money schools need.

What California schools need to meet new state expectations

If every school in California were identical in the needs and abilities of its students, the skills of its educators, and the nature of its surrounding community, state leaders might find it simpler to improve the system. Uniform regulations, funding, and expectations would be quite logical. But American schools—and perhaps California schools in particular—vary dramatically from place to place. That is one reason many Americans hold tightly to the concept of local control of public schools.

A tension exists between the belief in local control and the growing insistence—from the courts, the public, and policy makers themselves—that states take responsibility for educational outcomes. This conflict is seldom explicitly debated, yet it consistently undercuts California's ability to effectively resolve many issues related to school funding.

Eventually, California may have to grapple with this governance issue. In the meantime, however, Californians can still address the question of what it takes to create an adequate school system—a system that can deliver the high quality public education now expected in California and needed to maintain the state's economic vitality. The good news is that some agreements are emerging about what is most important. The next step is to determine what is missing in California's system today—identifying the greatest needs for additional resources. And finally, a critique of how the state currently funds its system—both in terms of amount and allocation—may help determine what it would take to close the gap between the schools California has and the schools it needs.

Researchers, superintendents, and the public identify key ingredients of an adequate system

The effectiveness of various education reforms, initiatives, and expenditures can vary dramatically based on local circumstances. In other words, what works in one setting may work less well or not at all in another. That said, research and practice do point to certain things as essential to effective schooling.

Researchers say qualified educators are vital to an effective system

Many researchers have attempted to determine which components of the education system make the most difference in student achievement. Although some conclusions are emerging, experts cite this research with the caveat that the links between educational inputs and specific outcomes are somewhat elusive.

Research findings from a wide variety of sources suggest that putting resources into improving educator qualifications—building the capacity of educators—pays off in terms of student performance. Researchers recommend improving the quality of teacher preparation and establishing more rigorous and demanding teacher certification practices. Researchers also suggest more and higher quality professional development opportunities for current teachers and administrators. Higher salaries, they say, are needed to attract and retain the best and brightest in the education profession.

"The 21st century demands innovative, new approaches to teaching and learning. We must challenge content, process, organization, training, resources, technology, and assessment in the process of reinvention."

Keith Larick, Superintendent

Tracy Joint Unified School District

EdSource Superintendent Survey, 2000

EdSource surveys school district superintendents

In January 2000 EdSource sent a survey to every school district superintendent in California, asking them about school funding as it relates to adequacy of education. Almost one-third of the state's superintendents responded. The profile of their districts was somewhat different from the state as a whole:

Type of district	Survey respondents	State as a whole*
Unified	40%	32%
Elementary	51%	58%
High School	9%	9%

% of students on free/reduced price meals	Survey respondents	State as a whole*
0–21%	27%	25%
22%–40%	27%	25%
41%–62%	24%	25%
63%–100%	22%	25%

Size of district	Survey respondents	State as a whole*
≤ 1,000 ADA	32%	43%
1,001–5,000	31%	29%
5,001–10,000	18%	13%
10,001–20,000	11%	9%
> 20,000	8%	6%

* State data are from 1998–99.

The full results of this survey are available on the EdSource website at www.edsource.org.

EdSource 4/00

Linda Darling-Hammond and Deborah Loewenberg Ball, professors of education at Stanford University and the University of Michigan, respectively, put a particular emphasis on teachers. "What teachers know and can do is crucial to what students learn," they say in *Teaching for High Standards: What Policymakers Need to Know and Be Able to Do*. They also suggest the further policy implication that "school reform cannot succeed unless it focuses on creating the conditions —including school and curriculum contexts—in which teachers can teach well."

California superintendents say educators are first of many priorities

In an EdSource survey conducted in January 2000, California school district superintendents echoed these research findings. They were asked to rate the importance of various components to an adequate education system in California (see Question #1). Qualified, effective teaching staffs, school site leadership, and district leadership were the three top items on their collective list regardless of the district size or the economic profile of the students they served. This response was

Figure 8

EdSource Survey: Question #1

How important are the following components to an adequate education system in California? (320 respondents)	Average response 1 = most important 2 = important 3 = less important 4 = not important
Qualified, effective teaching staff	1.05
Qualified, effective school site leadership	1.09
Qualified, effective district leadership	1.22
Safe, secure schools	1.40
Challenging and balanced instructional program	1.48
Extra support for low-performing students	1.52
Instructional materials aligned with state standards	1.59
Valid, reliable student assessments aligned with state standards	1.60
Well-maintained school facilities	1.68
Capacity for school data analysis and program evaluation	1.80
Qualified, effective student support services (nurses, counselors, etc.)	1.93
Up-to-date technology for instruction and operations	1.93
Effective programs for parent involvement	2.00
Small class sizes across all grades and subjects	2.02
Appropriate school facility design and size	2.08
An extension of the traditional school day/year for all students	2.11

EdSource 4/00

also consistent across all three types of districts—elementary, unified, and high school—with one exception. High school superintendents placed a "challenging and balanced instructional program" as slightly more important than qualified, effective district leadership.

Survey participants put "safe, secure schools" fourth on their collective list. This certainly is in line with the public's belief, expressed in numerous public opinion polls, that safe and orderly schools are of paramount importance.

Superintendents—particularly of high school districts—also show their support for high academic standards by putting a "challenging and balanced instructional program" near the top of their list. They also call for extra support for low-performing students.

From the responses to this survey question, superintendents indicate that a great many factors go into the creation of an education system capable of achieving high standards. When presented with a choice of 16 components, they gave almost no ratings of "not important." An extension of the traditional school day/year was given this low rating by just 12 respondents, and five other components received just one or two ratings as "not important."

Public opinion echoes similar priorities

In 1999 respondents to a national poll about public schools echoed many of the same opinions voiced by California's superintendents. "The public's concern for discipline and for the quality of the teaching staff are threads that run throughout this year's poll," said the authors of the 31st Annual Phi Delta Kappa/Gallup Poll of the Public's Attitudes Toward the Public Schools.

While Gallup respondents did not express a lack of confidence in today's teachers, they were nearly unanimous about some aspects of teacher quality. About 97% agreed that "those who want to become teachers should be required, before they are hired, to prove their knowledge of the subjects they will teach." When asked about effective incentives for attracting and keeping qualified teachers, 90% favored increasing pay for teachers who demonstrate high performance; 86% favored offering loans and scholarships for prospective teachers; and 85% favored school-financed professional development opportunities.

Concerns about school safety were also uppermost for the Gallup respondents. In an open-ended question, the poll asked what "one thing they would change in order to improve public schools in their communities." The most common response, at 12%, was to enact more control and stricter rules. Another 10% said they would hire more teachers in order to reduce class size.

Survey results: California schools need more support for teachers and low-performing students

The EdSource survey also asked superintendents for their top five spending priorities if they had full discretion to spend additional funds in their districts. The responses to this question (see Question #2, page 16) coincide with the concern about qualified teachers. Superintendents most often cited "providing more/better teacher professional development" and "raising teacher salaries" as their top spending priorities. These were ranked in the top three by more than half of superintendents, regardless of the size, configuration, or student-poverty level of their districts.

Spending additional funds for "enhancing and improving the instructional program" ranked in the top five spending priorities for 64% of high school superintendents. This same group also varied from their peers by placing less importance on smaller class size as a spending priority, with just 32% putting it near the top of their list compared to 40% overall.

Providing extra support for low-performing students was also an important priority. Large school districts expressed a particular need for it.

Equally revealing are the items that superintendents were least likely to place among their top five funding priorities. "Creating and operating smaller schools" was one of the least mentioned spending priorities for superintendents, regardless of district grouping. No high school superintendents placed this option in their top five. This result is of particular interest because so much research cites small school size as important to student achievement.

Stanford Professor Michael Kirst, director of Policy Analysis for California Education (PACE) and a long time commentator on California school finance issues, sees a straightforward explanation for

"We need time and money to help teachers get through the extra work being placed at their doorstep by virtue of increased accountability. Let the state clarify the expectations, then get out of the way—no more strings on funding—just expectations for performance."

Jane McDonough, Superintendent/Principal

Harmony Union Elementary School District

EdSource Superintendent Survey, 2000

Figure 9
EdSource Survey: Question #2

If education funding were increased and districts had complete discretion over the use of these funds, what would be the first spending priorities of your district?	% who selected item as one of top 5 (out of 322 respondents)	Average weight per response* (Respondents were asked to rank their top 5 choices, with "1" representing the highest spending priority.)
Providing more/better teacher professional development	58%	2.43
Raising teachers' salaries	53%	2.35
Enhancing and improving instructional program	46%	2.66
Providing extra support for low-performing students	42%	2.99
Providing smaller class sizes across more grades and/or subjects	40%	2.60
Acquiring instructional materials aligned to state standards	33%	3.30
Hiring more student support staff (nurses, counselors, etc.)	32%	3.46
Lengthening the school day/year for all students	29%	2.56
Updating technology for instruction and operations	27%	3.58
Providing more/better professional development for principals/administrators	24%	2.97
Improving the condition of facilities	22%	3.58
Raising principals' and/or district administrators' salaries	21%	3.15
Increasing capacity for school data analysis and program evaluation	19%	3.79
Making schools safer and more secure	12%	3.59
Creating and operating smaller schools	12%	3.69
Creating more effective programs for parent involvement	8%	3.96

*This was calculated by averaging all weights given to this option (1 to 5) by those who put it on their list of five. For example, if the 8% of respondents who chose parent involvement had placed it as the first priority, it would have had a 1.00 in this category. The smaller the number, the higher priority the respondents gave it.

EdSource 4/00

this disconnect. As quoted in a Feb. 9, 2000, article in *Education Week*, Kirst said: "The small-schools theme has been one of academics, researchers, and policy analysts, but it's been one that school administrators and policy makers have not endorsed. …Because of construction costs, states with rapid enrollment growth have often viewed small schools as a 'luxury they cannot afford.'"

An interesting contrast also emerged between the high priority superintendents gave to safe, secure schools as an important component of the education system, and their relatively low rating of "making schools safer and more secure" as a priority for local spending. Just 12% of total respondents put it on their top five spending list, though 25% of high school district superintendents did so.

Superintendents say school funding is neither adequate nor allocated well

If it were up to the superintendents responding to the EdSource survey, California would change its school finance system in two general ways. It would give K–12 education more money, and it would allow districts more flexibility in how funds are spent. (See Question #3, page 17.)

Increasing the total amount of funding was in the top five for 89% of respondents. They chose either or both of the related selections, "bring the per pupil expenditure up to the national average" and "come to consensus on what constitutes an adequate education and fund it." Of particular note, the 54% or 174 superintendents who selected the latter were quite emphatic, with 94 of them ranking it their first choice.

Notably, nearly 80% of the respondents cited full funding of Special Education costs as a top concern. A full exploration of the Special Education system, its growth, and its impact on regular education are outside the scope of this publication. (See the box on page 17.) However, the survey suggests that ignoring the topic of Special Education as an integral part of the larger school finance issue in California will leave a major problem unsolved.

The need for greater flexibility also received a strong nod from many respondents, who wanted to receive a greater proportion of revenues as

Figure 10
EdSource Survey: Question #3

Which of the following changes in the school finance system in California do you think would have the greatest positive impact on your district's ability to provide an adequate education for its students?	% who selected item as one of top 5 (out of 322 respondents)	Average weight per response* (Respondents were asked to rank their top 5 choices, with "1" representing the option they felt would have the greatest impact.)
Fully fund state/federal shares of Special Education costs	79%	2.62
Bring per pupil expenditure up to the national average	70%	2.38
Give districts a greater proportion of revenues as non-earmarked funds	67%	2.82
As a state, come to consensus on what constitutes an adequate education and fund it	57%	2.34
Fully fund cost of state/federally mandated programs (besides Special Education)	43%	3.60
Allow for more flexibility in how the district can spend its earmarked funds	41%	3.65
Simplify the education funding system	38%	3.55
Equalize or more nearly equalize revenue limits	25%	3.25
Reform school governance structure so that school sites can make fiscal decisions	21%	3.22
Create a local funding mechanism whereby districts can easily raise their own revenues	19%	3.77

* As with Question 2, this was calculated by averaging all weights given to this option (1 to 5) by those who put it on their list of five. The smaller the number, the higher priority respondents gave it.

EdSource 4/00

non-earmarked funds. Support for this was particularly strong among the smallest school districts (with 1,000 or fewer students), with 73% of these respondents putting greater flexibility in their top five choices. The same superintendents were also more likely than their large-district counterparts to call for a simpler school finance system.

Greater equalization of revenue limits and increased ability to raise school revenues locally were lower on the respondents' priority list. They also showed little support for reforming the governance structure to provide school sites with more fiscal control.

California can learn from other states' experience with adequacy models

When decision makers have come to consensus on what defines an adequate education (and for whom), they must then determine how much money is enough to make that system possible. Unfortunately, this too is difficult for a variety of theoretical and practical reasons. As California considers this question, policy makers may want to look at the approaches attempted and lessons learned in other states. Researchers offer some useful insights from their evaluations of these approaches.

Research offers some general advice on how to address funding adequacy

A substantial body of new research on the issue of funding adequacy is available from the Consortium for Policy Research in Education

Special Education costs concern educators

As respondents indicated in the EdSource survey, the level of state and federal support for Special Education is an issue of particular concern to many local educators. In an article by the Center for Special Education Finance, researcher Tom Parrish says, "Questions about the impact of rising costs of Special Education on general education programming are among the most contentious issues faced by the public education community today."

Parrish cites research documenting that Special Education expenditures nationally have grown as a percent of total budget at the same time the proportion of expenditures for regular education has decreased. He cautions, however, against addressing this trend without first understanding the reasons behind it, which can vary by state and by school district. In particular, Parrish writes that the rising Special Education expenditures in California come from the increased number of students being referred by general educators to receive specialized services. Clearly, he adds, a big part of the answer in regard to Special Education cost control must come from systemwide reform (general and Special Education combined).

In California, the number of Special Education students increased by half from 1987–88 to 1997–98. As a percentage of total enrollment, the Special Education population has grown from 8.6% to 11.0% of all students during that time.

(CPRE), a national consortium of academics. It can provide guidelines for state policy makers who are designing a new school funding system or contemplating new state-funded programs.

- ✔ CPRE recommends that a school funding formula begin with a determination of the base funding amount required to adequately educate the "average" student to the acceptable standard. Then additional funds should be added to account for the special costs associated with educating students who start with a disadvantage (particularly learning disabilities, English language deficits, and poverty backgrounds).
- ✔ The full cost of implementing new programs should be considered when establishing funding formulas. Beyond the price of the programs themselves, other costs may include the supplies, materials, technology, facilities, additional staff, and professional development necessary to properly implement those new programs.
- ✔ Methods for considering regional differences in the cost of living and provisions for future inflation adjustments should be built into the funding system.

Three methods to determine adequate funding offer insights

On the theoretical side, the hard link between the allocation of money and specific student outcomes has remained elusive. For example, researchers find that funds used in one district to reduce class size or upgrade facilities improve student achievement. But funds used the same way in another district do not have the same effect. Such results illustrate that money is only one among a host of factors that affect the success of an education initiative. The effects of intangibles—such as school culture, existing school policies or programs, and educators' skill in implementing the new program—are difficult to quantify.

In an attempt to account for these and other factors, policy makers throughout the United States have used various methods to try to more broadly determine how much money is enough. These strategies have both strengths and weaknesses. While researchers give them a variety of labels—and sometimes group them differently—for the purpose of this publication they are referred to as the "successful model," "data-driven," and "professional judgment" approaches. (For further information about each of these approaches, see *Equity and Adequacy in Education Finance*, published by National Academy Press.)

The successful model approach bases funding on high-performing schools

Some policy makers have created funding formulas based on the education costs in specific districts or schools that are considered successful. This approach uses two different types of models: 1) looking at actual districts that meet set performance criteria, or 2) using nationally recognized comprehensive school design models that have a

Ohio identified successful districts to determine an adequate funding level

In response to the *DeRolph v. Ohio* court ruling, the state of Ohio used the following approach to arrive at a recommended per pupil amount for 1996 of $3,930 (before additional resources are added for students with special needs and for other factors).

Researchers looked at all Ohio districts, removing districts with extremes of property wealth and per pupil spending levels to get a representative sample.

Within this sample, they identified all districts in which average student performance was at the 70th percentile or above on 17 of the 18 preselected measures of student performance.

They examined these high-ranking districts' instructional arrangements and organizational characteristics. These include class sizes, school sizes, educator-pupil ratios, and course offerings. These arrangements were distilled and taken to be exemplary practices and conditions for districts attempting to reach specified levels of achievement. These practices became model instructional programs.

The researchers then assigned costs to the instructional components. Additional resources were then added for the needs of special populations of students and other factors.

In a 1997 revision of the Ohio study, the researchers eliminated their observation of actual components such as class sizes and only looked at what, on average, those schools spend per pupil.

A lack of data could hamper a similar approach in California. Complications could also arise because of the state's huge variations between districts in terms of size, student characteristics, and local cost of living. Using district averages to draw correlations between cost and performance could also be misleading because wide variations in student profile, resources, and performance occur within many school districts.

respected track record. In both cases, the emphasis is on first identifying the "base amount for the average student." Factoring in the incremental costs for special needs students is a second step.

When high-performing districts or schools are used as the model, policy makers typically start by defining the level of student performance they consider adequate, usually based on test scores. Then, they identify schools or districts in which students are performing to that level. The cost of operating these schools or districts is calculated and their expenditures define "adequate funding" for achieving the level of student performance the state finds acceptable. This has been done—with some variations—in Ohio, Mississippi, and Illinois. (See the box for more on the Ohio model.)

This approach has the advantage of being intuitive and thus easy to understand. It may, however, lead to over-funding of districts because it relies on data from all districts with adequate outcomes, not necessarily those that produce them efficiently. With this approach, access to high-quality data is a key factor, including both student performance data and student/district characteristic data. This requires a sophistication in both data collection and tools to measure student outcomes that most schools and school districts do not currently have.

Increasingly, policy makers are also looking at some successful, nationally tested comprehensive school design models on which to base funding formulas. Programs in the New American Schools project—including "Accelerated Schools," "Roots and Wings" (based on Success for All), and the "Modern Red Schoolhouse"—have some documented success in improving student performance. They are also meant to be replicated, rather than being uniquely tied to a set of local circumstances.

Integral to these designs is a rethinking about how schools are organized and operated. In a February 2000 article in *Phi Delta Kappan*, Allan Odden notes: "These models tend to staff schools differently, group students differently, and approach curriculum and instruction differently. In short, implementing comprehensive school reform represents a major educational change." Odden demonstrates, however, that these models can be implemented at comparable or less cost than "traditional" staffing, making them a possible strategy for improving educational productivity.

In 1997, Odden developed cost estimates for these models that accounted for both ongoing expenditures and the one-time costs associated with systemic change. These cost figures generally began with a "core" staffing of one principal and a number of teachers based on a set pupil-teacher ratio. The latter is of particular importance, Odden notes, as class size is a major determinant of any school's cost. Beyond this core, the reform models varied in their cost structure based on program specifics. More recently, Odden developed a more standardized list of the key professional staff positions and resources needed to implement a comprehensive school design at the elementary level. These include:

- ✔ principals and vice principals;
- ✔ instructional facilitators to provide full-time instructional leadership;
- ✔ classroom teachers;
- ✔ regular education specialists to teach subjects such as art and music;
- ✔ a strategy for helping struggling students;
- ✔ site-based ongoing professional development;
- ✔ pupil support or family outreach depending on the students being served; and
- ✔ ongoing purchases of computer software and hardware.

One temptation, should a state use this general approach, would be to assume that the comprehensive school design should then be applied to all schools. Funding could end up being quite

New York's data-driven method yielded widely varying results

In New York State, researchers William Duncombe and John Yinger attempted to use a data-driven method that took into account a number of outcome indicators. They then tried to arrive at a cost for educating the more disadvantaged student population in the New York City Schools, based on two different approaches to measuring the differences in student characteristics.

When they attempted to accommodate for differences based on community voting patterns, their model indicated that it would cost 7% more in New York City than in an average district statewide to yield average school performance. But when they used student performance data alone (e.g., test scores, graduation rates, and Regents diplomas), the cost differential was 262% more than the average.

"There is an inherent tension between the state's interest in guaranteeing an adequate level of resources, and the state's interest in assuring that local initiative, creativity, and sense of control are mobilized to deliver those resources."

James Guthrie and Richard Rothstein

Equity and Adequacy in Funding

restrictive or prescriptive, affecting school districts' initiative to improve. The developers of the New American Schools project believe strongly that different approaches work for different schools.

The data-driven approach relies on weighting "uncontrollable factors"

The focus of this strategy is to create a method by which weighting for "uncontrollable" factors such as student characteristics and cost-of-living differences can be accomplished systematically. Rather than putting the emphasis on finding one magic number for a state, this method uses a cost index to attempt to determine appropriate funding levels on a more local basis. Sometimes referred to as the "black box" or "raw correlational" approach, this requires first identifying the acceptable level of student performance and coming up with a base funding level. Then researchers use statistical methods to determine the money it would take for various systems to get to the educational goal based on the factors they do not control, such as local salary levels and student needs. (See New York box on page 19.)

This method is based on a relatively simple principle that bypasses the often contentious and complicated process of identifying and costing out each component of a successful school system. It also avoids prescribing any particular set of instructional practices that should be used in association with the money. Its validity, however, is predicated on access to a quantity of reliable data that most states do not have. Arguably, those states include California.

This complex statistical approach is also not easy to explain to policy makers, educators, or the public. More problematic to researchers is the extent to which this method's accuracy depends on the assumptions and judgments used, and the fact that those assumptions are often not explicitly described. For state policy makers, a bigger concern could be that the model does not account for how efficient the system is, just how much it currently spends.

The professional judgment approach uses panels of experts

Some state policy makers rely upon panels of education experts to define an adequate education system, with the components each assigned a cost. A price tag for the whole system is then tabulated.

A variation on this theme was used in 1996 when the Wyoming Legislature had to redesign its school funding formula to satisfy the mandate imposed by the Wyoming Supreme Court's *Campbell County v. Wyoming* decision. The Wyoming example (see box) combines the judgment of practitioners with data from national research and comprehensive school reform designs. Because of the extreme variations between schools, it leaves out of the base number specific costs for food service and for instruction of English learners and students in poverty.

Advantages of this approach include its relative simplicity and the opportunity it provides to involve many or all constituent groups. It can be used whether or not a state has quality measures of student performance or unanimity about student outcomes.

Although this approach is imprecise, it makes the assumptions upon which it is built absolutely clear, as in the Wyoming model. Two different panels could easily come up with different models and funding amounts, but why that occurred would be transparent.

Perhaps a more compelling criticism is that this approach can rely heavily on the status quo to identify what it takes to educate students. This method may not recognize or identify major changes that are necessary. Also, those who serve on the panels could be prone to some conflict of interest based on their professional perspective or affiliation.

Creating an adequacy approach is not a "cut-and-dried" process

Each of these strategies for determining "how much money is enough" has methodological strengths and weaknesses. And no matter which model they favor, researchers uniformly caution that the work takes time, commitment, and thoughtful analysis. They also agree on some overriding principles which may, in fact, be more important than the specific method chosen to explore the question of adequate funding.

The first principle is that a hard-and-fast number—an amount that is adequate in all schools and settings—is extraordinarily difficult to identify, no matter which of the above-mentioned strategies is used. Further, each method carries with it a certain amount of bias.

Second, agreeing on the cost adjustments required to educate students with special needs is almost as complex as dealing with base funding. While some would simply point to existing categorical programs as appropriate additional money, others would argue that some of these programs are currently underfunded—Special Education being a ready example.

A third principle comes from research done over decades regarding the relationship between funding and school performance. While findings differ in some significant ways, a convincing number of researchers agree that money can and does matter in education, depending upon how it is used. Further, local circumstances—such as unique student needs, the level of existing resources, and the abilities of local educators—determine the effective use of funds.

Researchers James Guthrie and Richard Rothstein focus on the latter point on page 28 in *Equity and Adequacy in Funding*. "Because a state identifies a collection of resources as adequate, and funds that collection, it does not mean that districts should be prevented from organizing

Professional judgment shaped the answer in Wyoming

Following is the state of Wyoming's formula for an adequate system at a typical elementary school of 288 students based on 1995–96 costs. Similar models were created for middle and high schools.

Description	Units (based on FTE**)	Salary cost (per FTE)	Salary driven and health benefits (per FTE)	Total cost for subcategories	Total cost
Personnel					**$1,156,552**
• Teachers	20.0	$31,758	$9,675*	$828,660	
• Substitute teachers	0.9	$10,500	$803	$10,173	
• Aides (FTE)	3.0	$10,080	$1,915	$35,986	
• Pupil support	1.5	$31,758	$9,675*	$62,150	
• Library/media (could include certificated librarian, media assistant, and/or technician)	1.0	$31,758	$9,675*	$41,433	
• School administration	1.0	$50,877	$13,308*	$64,185	
• Clerical/data entry	2.0	$16,000	$6,681*	$45,362	
• Operations	2.5	$20,000	$7,441*	$68,603	
Supplies and instructional materials (about $215 per student)					**$61,950**
Equipment					**$37,837**
Food service (varies by district)					**N/A**
Categorical Aid					**$153,810**
• Special Education (an estimate that does not include low-incidence/high-cost disabilities)				$152,514	
• Limited English speaking (varies by district)				N/A	
• Disadvantaged youth (varies by district)				N/A	
• Gifted				$1,296	
Student activities (about $7.50 per student)					**$2,167**
Professional development					**$26,352**
Assessment ($25 per student)					**$7,200**
District expenditures					**$329,567**
• Maintenance and operations				$93,064	
• Administration & miscellaneous expenditures				$159,323	
• Transportation				$77,180	
TOTAL COST (for a school of 288 students)					**$1,775,435**
Total cost per pupil					**$6,165**

Salary-driven benefits in Wyoming include Social Security, Medicare, Workers Compensation Insurance, Unemployment Insurance, and State Pension.
** Includes $3,641 in health benefits*
*** FTE = full-time equivalent*

While this process could be used in California, many specifics would have to differ. Necessary adjustments might begin with the school size, which tends to be larger in this state. The assumptions about ideal class size, student-teacher ratio, and staffing levels outside the classroom also differ greatly from what is found in California or even considered possible by some. Average wage levels are quite a bit higher in California, where the average annual teacher salary, for example, was $44,585 in 1997–98.

resources and instructional delivery differently to achieve the same objective. There is an inherent tension between the state's interest in guaranteeing an adequate level of resources, and the state's interest in assuring that local initiative, creativity, and sense of control are mobilized to deliver those resources."

Aiming for the national average may be a first step

In many cases, large-scale changes in funding systems to achieve adequacy have been prompted by court mandates. Absent that—and given current political pressures plus a healthy state economy—California may choose to forego or at least postpone the more analytical approaches in favor of something more pragmatic, at least in the short term.

One option currently under debate is an initiative sponsored by the California Teachers Association (CTA) that would raise the state's per pupil expenditure to the national average. Language in the California Constitution (Article XVI, Section 8.5) suggests another much higher standard—the average per pupil expenditures of the 10 top spending states and the average class size of the 10 states with the lowest class sizes. As part of amending the Gann Limit in 1990, voters adopted this as a threshold below which schools would get additional funds if state tax revenues exceed a specific amount.

Both of these funding thresholds would provide significant additional revenues to public education. They would not, however, provide a clear and understandable calculation of a base funding level. This omission would leave the

How much would it take to improve California's K–12 expenditures compared to other states?

Targeting the national average

The concept of raising California K–12 expenditures to the "national average" is being discussed in the Legislature and has been put forth as a possible ballot initiative by the California Teachers Association (CTA). In its February 2000 analysis of the 2000–01 state budget proposal, the Legislative Analyst's Office (LAO) discussed the implications of this policy option. In part they described the difficulty inherent in arriving at a dollar figure. "While it is generally accepted that California spends less than the national average, estimates of this gap vary widely—from less than $300 to over $1,200 per pupil—depending on the source and depending on how the gap is defined."

The LAO went on to explain that these variations largely depend on five factors:

Choice of index: Two sources of comparative data are widely used—the National Center for Education Statistics (NCES) and the National Education Association (NEA). The two sources differ in the way they count students, the expenditures they include in their calculations, and the form in which they release their data.

Which expenditures are counted: Both NCES and NEA data depend on calculations of how much schools and school districts actually spent. This is historical data that reflects what happened in past years. State policy makers, particularly in a state-funded system such as California's, tend to focus instead on how much money the state and other sources are providing to schools. This is usually prospective and based on revenue estimates for the coming year.

Another substantial variation arises depending on whether one counts only operating costs used for the day-to-day operation of schools or one includes capital expenditures, the cost of school buildings and some equipment. The former is most typically used.

Average Daily Attendance (ADA) versus enrollment: Obviously, arriving at a per pupil amount requires counting the number of students. In California and nationally, however, the counting is done two different ways. For some purposes, it involves a single number of total students enrolled—a count that takes place in California on a single day in October. For other purposes, including most aspects of school funding, it is an average of the number of students present in school each day during the school year.

Time lags: The latest reliable data for school expenditures lags two to three years behind the present, due to difficulties collecting the data from thousands of local school districts nationwide and assuring data is reported consistently from state to state. Estimating the current gap requires projections regarding both the number of students and spending for California and nationally.

Accuracy of data and estimates: Inaccurate data and estimates sometimes create large discrepancies in measurements of the gap.

In its analysis, the LAO estimates that the gap between Governor Gray Davis' 2000–01 budget proposal and the projected national average in other states could be approximately $500 per student. If that were the case, the gap would be about $3 billion total.

California voters approved a higher target

Bringing California up to the national average would fall short of a goal articulated and approved by voters in Proposition 111 in 1990. The measure used the per pupil expenditure by the 10 top-spending states as a benchmark. If that number were calculated for 1997–98 based on a simple average of the states—not adjusting for their relative size—it would have been $8,847 per pupil (ADA), compared to California's $5,627 (based on an EdSource calculation).

Some cost estimates for K–12 improvements from the LAO

Responding to a legislative request,* the Office of the Legislative Analyst (LAO) prepared rough cost estimates for a number of items. The analysts caution that actual costs would depend greatly on how programs were implemented. These are presented here not as suggestions for new categorical programs but to provide a perspective on how much districts would have to get to attain certain program or service levels.

Class size reduction in grades 4–12, assuming a 20-student maximum per classroom. One-time cost for facilities—up to $2 billion. Annual cost for operating the program—$2.6 billion.

An increase in beginning teacher salaries to $35,000 annually, assuming a 15% add-on for the increased costs of salary-driven benefits (such as retirement) and a comparable adjustment of the entire teacher pay scale to avoid "compaction." Annual cost—$1 billion.

Making sure every school has a librarian, based on a $60,000 annual salary and benefit cost for one librarian at each of the 6,050 schools that do not currently have one. Annual cost—$365 million.

Copies of these estimates are available from the LAO.

*The above estimates were presented at the request of the Assembly Select Committee on School Funding Reform on Feb. 29, 2000.

state still with no clear mechanism for revenue adjustments based on geography or student population. It would also get California no closer to answering the question of how much is enough or to addressing the public's ongoing question about whether or not funds are spent efficiently. In addition, many see the national average as too low a threshold for meaningful improvement, particularly given the state's high cost of living.

Where California can go from here—a look at the possible options

Policy makers are currently grappling with a basic question. Do California's public schools have enough funding to provide the quality education system the state wants and needs?

By many measures, the answer to this question appears to be no. It is evident that California suffers compared to other industrial states and the national average in terms of how much it spends per student. Comparing a specific measure (e.g., pupil-teacher ratios) to what some newly developed models recommend again indicates that California falls short. Further, the high cost of living in this state—combined with the large number of students who need to learn English and who come from low-income families—prompt many experts to say that some amount above the national average would be appropriate.

Meanwhile, California has raised its expectations for student achievement and thus for its public school system. Most experts agree that the capacity of the system also needs to increase if those expectations are to be met. Additional funds may be integral to that capacity building.

It seems only logical to add funding to the system in such a way that it actually results in some desired improvements. California school district superintendents and many researchers say teacher quality and professional development are most important. But a thorough and thoughtful examination of what is needed would look much deeper.

California could, in fact, follow the lead of other states and begin developing its own model for educational and funding adequacy. In a state as complex as this, achieving clarity about the overall goals of the educational system and about spending priorities would be a time-consuming and complex endeavor. Answers about the efficiency and effectiveness of the current investment in education may be equally elusive. Yet grappling with such difficult issues is a responsibility of leadership. And just as the state wants to hold its schools accountable for adequate performance, state leaders need to be held accountable for policy making that supports schools so they can meet expectations.

Today, in the spring of 2000, California may have an unusual convergence of fiscal ability and

"The system was not designed to produce the depth of education the 21st century is demanding.... It will take bold and enlightened leadership to change the system, and the answer cannot be found by looking into our past."

Harley North, Superintendent

Evergreen Union Elementary School District

EdSource Superintendent Survey, 2000

What about facilities?

In this report, the focus on school funding concerns the day-to-day operation of schools. It does not address an important component of school adequacy and equity—school facilities.

In the EdSource survey, California superintendents put "well-maintained school facilities" at about the mid-point in their assessment of important system components. The question of having room for growing student populations is also very pressing in some communities. As one superintendent said, "None of this can be done without schools to put students in. Overcrowding undermines everything."

The need for more and better school facilities is an important issue in California. For a comprehensive examination of this vital topic, order the EdSource publication *California's School Facilities Predicament*.

political will that could provide an immediate chance to increase support for schools. This is an opportunity the state could take today by simply raising per pupil funding, perhaps using some definition of the national average as a target. Or state leaders could base an increase on calculations for the cost of specific targets for improvement, be they smaller class sizes, higher teacher salaries, or some other objectives.

At the same time, the state could embark on a long-term rethinking of the school finance system, perhaps as part of the work now being done on the K–16 Master Plan. Should California's state leaders decide to undertake this effort seriously, they will face both practical and political challenges.

On the practical side, California's state leaders may have a difficult time crafting policy that considers both local circumstances and systemwide education goals and standards. This is particularly true with the diversity within California in terms of the size, demographics, and dynamics in its 58 counties and nearly 1,000 school districts. The core issue is state leaders earmarking funds versus providing greater local or school district discretion.

On the political side, answering the question of how much funding is enough requires moving from a formula based on what is available to one that requires some consensus about what outcomes are desired from the system and agreement about the best way to try to get them. To be done well, that highly political undertaking will have to bridge the concerns of many different interest groups. Ultimately, it will require perhaps dramatic changes in the status quo. That will take a strong political will, clear leadership, a coherent vision, and some time.

If California does not begin this work now, when will it ever occur?

To Learn More

For a complete bibliography of this publication and more funding adequacy resources, see the EdSource website, www.edsource.org. The superintendent survey is also on this website.

- *Equity and Adequacy in Education Finance: Issues and Perspectives*. Ladd, H. F., Chalk, R., and Hansen, J.S., eds. Washington, D.C.: National Academy Press, 1999.

  This collection of eight papers by various authors provides a comprehensive look at the legal history and theoretical foundations of school finance equity and adequacy. To order a copy of this book, contact the National Academy Press at 888/624-8373 or order online at www.nap.edu.

- *Does Money Matter? The Effect of School Resources on Student Achievement and Adult Success*. Burtless, G., ed. Washington, D.C.: The Brookings Institution, 1996.

  The authors of studies in this book focus on the effect of school spending on academic achievement and the impact of school resources on students' future earnings.

- *Creating School Finance Policies That Facilitate New Goals*. Odden, A. CPRE Policy Briefs, RB-26, September 1998.

  This policy brief sketches a vision for a school finance structure based on the concept of adequacy and linked to educational standards. The author discusses federal, state, and district roles in implementing this new vision. To obtain a copy of this policy brief or other CPRE publications, or to get more information about CPRE's school finance research, call the consortium at 215/573-0700 or visit the CPRE website, www.gse.upenn.edu/cpre.

EdSource is a not-for-profit 501(c)(3) organization established in California in 1977. Independent and impartial, EdSource strives to advance the common good by developing and widely distributing trustworthy, useful information that clarifies complex K–12 education issues and promotes thoughtful decisions about California's public school system.

EdSource thanks the Stupski Family Fund for underwriting the *EdSource Superintendent Survey, 2000*. EdSource also wants to acknowledge the James Irvine Foundation, the William and Flora Hewlett Foundation, and the Stuart Foundation for their core support.

To learn more about our organization, please contact EdSource to request:

- ✔ an annual report,
- ✔ a publications catalog,
- ✔ subscription information, or
- ✔ to be placed on our general mailing list.

EdSource
4151 Middlefield Rd.
Suite 100
Palo Alto, CA
94303-4743
650/857-9604
Fax 650/857-9618
e-mail:
edsource@edsource.org
Or visit us on the web at www.edsource.org.

For data about every school and district in California, visit the Education Data Partnership at www.ed-data.k12.ca.us.

This report was prepared by

Mary Perry, writer

Jackie Teague, researcher

Barbara Miller, researcher

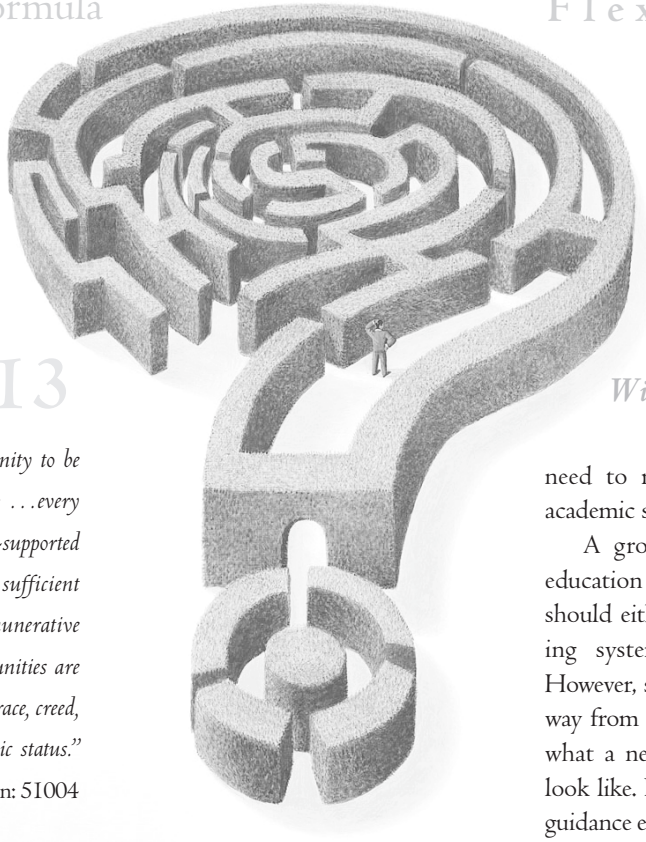
Lisa Carlos, researcher

Susan Frey, editor

EdSource Clarifying Complex Education Issues
REPORT
MAY 2004

Rethinking How California Funds Its Schools

Weighted Student Formula
Adequacy
Serrano v. Priest
Performance
Categorical Programs
Proposition 13
Flexibility
Fairness
Accountability
Collective Bargaining
Williams v. California



Every student "shall have the opportunity to be prepared to enter the world of work; . . .every student who graduates from any state-supported educational institution should have sufficient marketable skills for legitimate remunerative employment; . . . and . . .such opportunities are a right to be enjoyed without regard to race, creed, color, national origin, sex, or economic status."
—California Education Code Section: 51004

Every young person in California is entitled to the same educational opportunities. Further, state law and a series of court decisions say that providing those opportunities is ultimately the responsibility of state government.

In trying to fulfill that responsibility, state officials in recent years have set demanding new K–12 academic standards for what they expect each student to know and be able to achieve. They have also put in place a system of assessments and benchmarks that hold schools accountable for student performance. What state leaders have not done is re-examine California's complex school finance system in the light of these changes—at least not yet.

A rare combination of events is creating momentum and interest among a growing number of Californians who want to see the school finance system change. Not the least of these people is Gov. Arnold Schwarzenegger, whose 2004–05 state budget proposal calls for education funding reforms. This comes at a time when local schools are feeling desperate as they endure a third year of tight budgets due to the state's continuing fiscal crisis. A lawsuit against the state—charging that some children have been denied their right to basic educational services—may be near resolution. Interest groups are focusing on California's relatively low level of per-pupil funding. And a newly appointed state commission is about to ponder the question: What resources do schools need to meet the state's demanding academic standards?

A growing number of state and education leaders agree that California should either overhaul its school funding system or start from scratch. However, sharing that opinion is a long way from any kind of consensus about what a new and better system would look like. For one thing, little definitive guidance exists regarding the most effective way for a state to use school funding to support improved student performance. And the size and complexity of California make the prospect of change doubly hard.

One way or another, Californians are likely to take some actions to change the school funding system over the next few years. State lawmakers could move quickly to enact policies that respond to specific interests, or they could take time to grapple with the full range of complex and political issues that must be addressed to fundamentally change California's school funding policies. The public can wait and hope that state policymakers have the wisdom and courage to meaningfully address this important issue, or they can mobilize to exert political pressure for change. Some activists

© Copyright 2004 by EdSource, Inc.

EdSource is a not-for-profit 501(c)(3) organization established in California in 1977.

Independent and impartial, EdSource strives to advance the common good by developing and widely distributing trustworthy, useful information that clarifies complex K–12 education issues and promotes thoughtful decisions about California's public school system.

are considering California's ballot initiative process, if needed, to circumvent an unwilling Legislature.

More money for schools will be difficult to find while the state budget crisis continues. That could give the state time to rethink California's system in a way that will improve the learning environment in all 9,000 of its public schools. The first step is for Californians, including state policymakers, to be clear about what problems they are trying to solve, what funding strategies address those problems, and how the strategies fit together. Lessons from research and the experiences in other states can help inform this work.

In the long run, however, an infusion of additional funds may be an essential ingredient for bringing to fruition any plans for a new finance system. Conversely, without additional funds, major changes in the system may hit political obstacles that are insurmountable.

This report sets out some possible goals for a California school finance system that could better support student performance. It also describes the key forces that will shape any debate about school finance reform in California and examines those in the context of some important aspects of an effective finance system. In the process, the report provides brief descriptions of the various initiatives now underway in California and also looks at where the state might go from here.

Inside This Report

The Level of Education Funding Raises Concerns and Issues 6

Several Strategies Aim at Improving California's Existing Funding System 9

What Should California Do To Improve its School Funding System?.....18

This report was researched and written by:
Mary Perry

With research support from:
Noli Brazil
Carol Studier

EdSource thanks the **William and Flora Hewlett Foundation** *for its support of this project and its investment in our mission.*

Making money matter for student performance

California is far from alone in needing to examine its approach to funding schools. Throughout the United States, research, political initiatives, and court cases are focused on questions related to school finance. Increasingly, researchers and policymakers are looking at ways to create systems for allocating resources that support and encourage local schools' ability to improve student performance. Such a task, experts say, is extremely challenging.

At the University of Washington's Center for Reinventing Public Education, a multiyear effort called the School Finance Redesign Project is aimed at helping state policymakers, educators, and the public better understand how to make money matter. The project's leaders make a strong case for the need to redesign school finance systems generally. Their work and perspective may hold some valuable lessons for California policymakers:

"Public school finance systems today uniformly fail to support the nation's educational goals regarding greater student performance. In broad terms, we know why: Finance systems determine levels of support based on political bargaining rather than student needs. They focus on inter-district equity but ignore inequities among schools. They all but ignore adequacy. They apply conventional, process-oriented finance mechanisms. . .to unconventional performance challenges. They account for dollars and they exercise authority over resources centrally rather than at schools. They restrict school-level problem solving."

The project examines how funding can make a difference in school performance. It focuses on ways that finance systems affect the motivation and capacity of individuals and the environment in which they function. It calls for finance mechanisms that encourage students and teachers to perform better, that build their capacity to accomplish performance goals, and that structure the classroom, school, and system to support student performance.

Voters, courts, and lawmakers have shaped California's finance system

Through the State Board of Education, California's Legislature and governor have established the standards of performance expected of California's students. They also determine how much money schools get and how those funds are to be distributed.

A central question is the extent to which these state leaders can use their power over funding to improve the performance of more than 6 million children in about 300,000 separate classrooms. Within the current system, the path money takes from Sacramento to the student is not a direct one.

In California, as in most other states, the law requires that school districts function as the "fiscal agents" for public schools. That means state leaders allocate funds to 982 separate school districts, which in turn decide how to distribute resources to schools and classrooms. School boards and district leaders negotiate with unions to determine how much to pay their teachers and how large to make their classes. They also purchase the textbooks, place the children in the schools, manage the facilities, and decide how extra resources will be distributed.

Districts lose revenue-raising power in the 1970s

Historically, local school districts' control over expenditures was matched by their

© Copyright 2004 by EdSource, Inc.

control over revenues. Up until the 1970s, California districts had the power to raise property taxes to pay for school operations and facilities. That created substantial differences in funding from one district to the next. Communities with higher property values were able to support their schools more generously and with less effort (lower tax rates). This resulted in inequalities among districts that were challenged in court beginning in 1968. As a result of the *Serrano v. Priest* lawsuit, which was finally settled in 1976, the state Legislature looked for a way to finance schools that would be more equitable. It set "revenue limits" for school districts and began forcing the equalization of general purpose funds by limiting the increases for high-revenue districts and providing large increases to low-revenue districts. (See the box on the *Serrano* decision for a more detailed explanation.)

While the *Serrano* court case precipitated a major change in the state's role in school funding, it did not specifically address the revenue-raising ability of local school districts. A more dramatic change came in 1978 when California voters passed Proposition 13. It set a uniform statewide property tax rate, limited the allowable increases, and precluded local school districts from raising property tax rates on their own. It also resulted in a substantial one-time reduction in property tax revenues for schools. School districts—prohibited from increasing their revenues and facing drastic funding cuts—turned to the state. State officials kept districts whole by providing more state funding for schools; but in the process they also took over control of the distribution of local property taxes, effectively becoming the ones in charge of school funding.

The *Serrano* decision and Proposition 13 left their legacies

Begun in 1968, the *Serrano v. Priest* court case was one of the first lawsuits to challenge the inequities created by the U.S. tradition of using property taxes as the principal source of revenue for public schools. Lawyers for the plaintiffs maintained that the wide discrepancies in school funding that were systematically related to differences in district wealth (property taxes on assessed value per pupil) represented a denial of equal opportunity.

In 1971 the California Supreme Court ruled that education was a "fundamental interest" of the state and remanded the case back to lower courts to determine whether the discrepancies described by the plaintiffs actually existed. Anticipating an outcome that would demand change, state leaders passed Senate Bill (SB) 90 in 1972, creating the "revenue limit" system that put a ceiling on the amount of general purpose money each district could receive. To achieve equalization, the Legislature implemented a sliding scale of increases to revenue limits designed to bring lower-spending districts up to the level of higher-spending ones over time (labeled "leveling up").

The second case, referred to at the time as *Serrano II*, was settled in 1976. The court ruled that the changes made with SB 90 were not enough. In 1977 the state passed Assembly Bill (AB) 65, which made further changes in the system using a "power equalization" plan for redistributing tax revenue from higher- to lower-wealth districts.

Proposition 13 was passed just nine months later, in June 1978. A reaction to rapid and often dramatic increases in local property taxes at the time, its primary goal was to protect property owners by reducing and stabilizing their tax obligations. Its provisions wiped out 60% of local property tax revenues and therefore invalidated much of AB 65's financial reform, including power equalization. The Legislature's "bailout" bill, SB 154, retained the revenue limits but replaced most of the lost property tax dollars with money from the state budget. The total amount of money allocated to schools was cut. High-end districts received smaller increases than low-end districts on a sliding scale. This "squeezing" of the revenue-limit allocations minimized the sudden drain on the state's budget. AB 8, passed the following summer, continued the revenue limit system, including the squeeze mechanism for granting differential increases to districts based on their revenue limits. In 1983 the court ruled that the equity complaints brought in the *Serrano* case had been satisfied, and the case was officially closed. The decision specifically excluded categorical programs from the equalization formulas.

At that point California was left with a different situation than the *Serrano* plaintiffs had perhaps envisioned. Data from the National Education Association (NEA) indicate that a major change in California's contribution to public schools occurred following the implementation of revenue limits. In 1972 Californians contributed 5.6% of their personal income to public schools. By 1978—before Proposition 13 took effect—contributions had fallen to 3.8%.

State leaders exercise considerable control over funding and operations

Thus in the course of just a few years, the state dramatically changed its system for funding schools. State leaders became responsible for making sure that the tax effort was roughly equal among districts and for determining the actual amount of funding. This came on the heels of a greater state and federal activism in schools generated by the War on Poverty in the mid-1960s and the court-required Special Education system to protect the rights of disabled students in 1975. It is not surprising then that state leaders

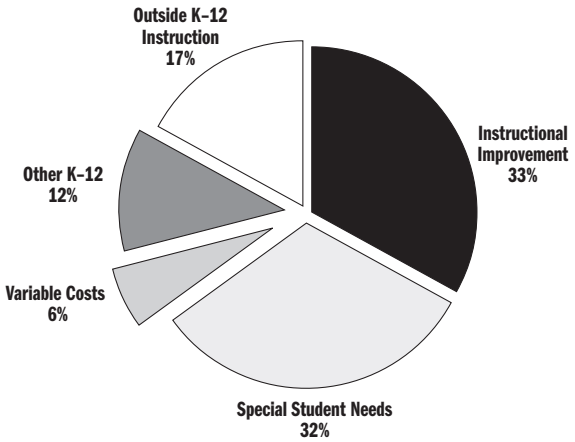
© Copyright 2004 by EdSource, Inc.

figure 1 | Distribution of categorical funds by purpose, 2003–04

Categorical funds represent about 38% of the total revenues allocated to K–12 education in 2003–04, including about $12 billion in state and $7 billion in federal programs. The pie charts below summarize the proportions of state and federal categorical funding that go toward various purposes. They do not include $62 million in state and federal grants for charter schools or about $202 million in miscellaneous state programs that each receive less than $20 million.

Proportion of state funded programs by purpose

(Includes programs receiving more than $22 million, which represent 98% of state categorical funds.)



Instructional Improvement: 33%
Includes Class Size Reduction (K–3), School Improvement Program, Summer School/Supplemental Instruction, Instructional Time and Staff Development Reform, High Priority Schools Grant Program, Instructional Materials, Class Size Reduction (Grade 9), Intervention/Underperforming Schools, Student Assessment, Beginning Teacher Support and Assessment, Math and Reading Professional Development, Tobacco Use Prevention Education, Peer Assistance and Review, Partnership Academies, and Dropout Prevention and Recovery.

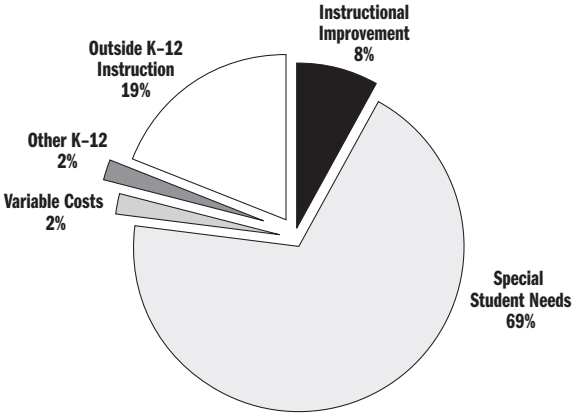
Special Student Needs: 32%
Includes Special Education, Economic Impact Aid, Child Nutrition, English Language Acquisition Program, Gifted and Talented Education, and Community Day Schools.

Variable Costs: 6%
Includes Pupil Transportation, Deferred Maintenance, and Year-round Education Grants.

Other K–12: 12%
Includes Targeted Instructional Improvement Grants, Regional Occupational Centers and Programs, Supplemental Grants, and CalSAFE.

Outside K–12 Instruction: 17%
Includes Adult Education and Child Care and Development.

Proportion of federally funded programs by purpose



Instructional Improvement: 8%
Includes ESEA Title II (Improving Teacher and Administrator Quality)*, ESEA Title VI (Assessment Funding)*, and ESEA Title V (Innovative Programs)*.

Special Student Needs: 69%
Includes ESEA Title I (Extra Support for Students Who Live in Poverty)*, Child Nutrition, Special Education, and ESEA Title III (English Learners and Immigrant Students)*.

Variable Costs: 2%
School Renovation Grants Program.

Other K–12: 2%
Vocational Education.

Outside K–12 Instruction: 19%
Includes Child Care and Development programs, ESEA Title IV (21st Century Schools)*, and Adult Education.

*No Child Left Behind (NCLB) programs.

Data: California Department of Education (CDE) EdSource 5/04

became increasingly involved in telling school districts how to spend their allocations. California's school finance system also became increasingly complex as state policymakers tried to ensure that school districts spent their funds in a manner consistent with state and federal expectations.

The chief strategy state and federal leaders have used to make sure that school districts spend funds "appropriately" has been to earmark funds for specific purposes

© Copyright 2004 by EdSource, Inc.

or students. Some of these categorical programs—such as Title I, Economic Impact Aid, and Special Education—were created to ensure that a given set of "special needs" students received extra services. The more of these students a district serves, the more funding it receives from these programs. Other programs, such as K–3 Class Size Reduction and staff development days, provide participating school districts with funding as long as they implement a specific strategy state leaders believe will improve instruction. Categorical programs generally are accompanied by regulations on how the funds can be spent and reporting requirements to ensure that districts comply.

Over the years, the proportion of funding that goes to school districts in this fashion has increased to about a third of total funding from all sources, and the sheer number of programs has multiplied as well. Figure I provides a summary of the programs and their general purposes.

Standards-based reform changed many things, but not the finance system

Particularly since 1997, California state leaders have instituted changes aimed at getting schools to focus on student performance, in large part by establishing uniform academic standards and holding individual schools accountable for how well their students are learning them. However, the state overlaid its new system of standards, tests, and interventions on top of the existing finance system. The net result is that while educators are expected to improve student performance and are held responsible for doing so, they have to function within a funding system that was created to constrain local decision making and limit the discretion of school district officials.

Regulations limit local discretion

Responsible for school budgets and held accountable for compliance with state and federal regulations, district officials in turn often limit the decision-making authority of school site leaders. In addition, collective bargaining agreements are negotiated at the district level and in most cases set out uniform expectations for teacher compensation and working conditions, such as staff meeting times, class sizes, instructional minutes, teacher preparation time, professional development expectations, and evaluation procedures. The larger the district, the more likely it is that these agreements can conflict with the way an individual school's leadership might want to organize the teaching staff, assignments, and instructional programs.

Business leaders in particular have criticized this lack of school site flexibility for many years. They cite organizational theories and business experience that promote decentralization as a key strategy for improving performance. The Committee for Economic Development (CED)—an independent national research and policy organization made up of business leaders and educators—makes this point in its 2004 report, *Investing in Learning: School Funding Policies to Foster High Performance.*

The report charges that financial accounting and reporting systems focused on districts rather than on individual schools are *"obscuring the link between the resources being spent on specific children and those children's learning and hindering efforts to determine where and how resources might be better spent. Principals not only lack data on their schools' resources but are seldom given significant control over their budgets, even though they are increasingly being held accountable for the performance of their students. These managers' ability to reallocate resources to what they believe are more effective uses, and thus do what they are convinced will improve performance, continues to be severely restricted by allocation decisions made at the district, state, and even federal level."*

School funding complexities obscure accountability

In California—with its proliferation of discrete programs and specific regulations—the financial decision-making process is virtually incomprehensible. As a result, it is extraordinarily difficult to hold anyone in the system accountable for the decisions that affect the quality of classroom instruction. If a school does not provide students with an adequate opportunity to learn, teachers and the principal can blame the central office for not providing appropriate resources. School boards and superintendents can, in turn, say the state is either not providing enough funding or has tied their hands regarding how it is spent. State leaders can put the blame back on local leaders, or teachers, calling them incompetent or unscrupulous for not using their resources wisely. And while those responsible pass the blame, many students are left without a decent education and their parents are left with no one to hold accountable.

Thus a major strand in discussions about finance reform in California emphasizes the need to restructure the system the state uses to allocate funds to school districts and thence to schools. Advocates believe that making the system more transparent and providing greater flexibility to local educators could improve the efficient use of funds. Others remain skeptical about the value of local flexibility, or they stress that flexibility must be accompanied by clear lines of accountability and serious consequences for adults in the system who do not live up to their responsibilities.

Some believe such an overhaul of the finance system would be enough to improve academic performance in California. However, others feel equally strongly that simply changing the system is not sufficient. They believe that, regardless of how funds are allocated, California's public schools need more

© Copyright 2004 by EdSource, Inc.

money if they are to accomplish what the state and the public expect of them.

The level of education funding raises concerns and issues

For many years, education advocates have bemoaned the inadequacy of school funding in California. They have typically used comparisons with other states as proof that California is not investing a sufficient amount in its K–12 system. The statistics used to make these comparisons—and rank California vis-à-vis other states—come from several sources, each of which gives a slightly different picture:

- The National Education Association (NEA) estimates that California's expenditures in 2001–02 "per student in fall enrollment" were $7,055. That placed the state 28th in expenditures and $493 below the U.S. average.
- The National Center for Education Statistics (NCES) uses a slightly different calculation and comes to a different conclusion. NCES put the "current expenses per pupil" for 2001–02 (based on fall enrollment) at $6,987 and placed California 25th among the states, $389 below the U.S. average.
- *Education Week,* in its January 2004 special edition called "Quality Counts," used yet another approach, adjusting the NCES data based on regional cost of living (as calculated using the NCES Geographic Cost of Education Index). California's "education spending per student adjusted for regional cost differences" was $6,258. This placed the state 45th and $1,118 below the U.S. average.

By all these measures, California lags behind many other states in the amount it spends per pupil. In a 2003 report—*High Expectations, Modest Means*—the Public Policy Institute of California (PPIC) developed a more nuanced analysis of California's investment in public schools. PPIC Senior Fellow Jon Sonstelie, one of the report's lead authors and a professor of economics at University of California–Santa Barbara, summarized that analysis.

Low effort and high salary costs combine to disadvantage California's students

Sonstelie compares California to the rest of the nation rather than positioning the state against the national average, which includes California. The key comparison, he said, is the total number of K–12 staff per pupil because "schools are principally about human resources." In 1999–2000 the United States—excluding California—had an average of 124.9 staff for every 1,000 students. California schools had almost 30% fewer, or 88.2 staff for every 1,000 students—a major difference that could seriously disadvantage California's students.

Sonstelie next explained that California as a state spends, per capita, about 9% more on state and local government than is the case in the other states. But while the state spends more on most areas of government—such as law enforcement, higher education, and social services—it spends less on K–12 education. The PPIC data show that the share of government expenditures that go to education is about 22% in California, while it is 24.6% in other states. In addition, in California a larger portion of the population is school age. For every 100 residents, California has 17.8 students it must pay to educate compared to an average of 16.5 students in the other states. The lower expenditures on public schools combined with the higher number of students means that California spends about 9% less per pupil than the other states.

The second part of Sonstelie's analysis examines how funds are spent in California schools compared again to all the other states except California. The key difference is that California has the highest-paid educators in the country, and thus has traded off staffing ratios for salaries. However, Sonstelie notes, "college graduates in California earn more money than college graduates in other states, and most of the personnel in schools are college graduates. We face, in California, higher personnel costs than other states, about 14% higher."

The combination of lower state investment, more students per capita, and a more expensive labor market has resulted in California's dramatically lower staffing ratios compared to other states. But comparisons, Sonstelie argues, are not the key to deciding whether the level of education funding is "adequate." Instead, he urges Californians to look at the expectations the state has established through its academic standards. By those criteria, as measured by the state's Academic Performance Index (API), some schools in the state are receiving enough funding. Those are the schools that have met the state's goal of 800 on the API. They also tend to be the schools that serve fewer low-income children. Conversely, the higher the proportion of low-income students in a school, the lower that school's API tends to be. If California is committed to meeting its standards-based goals, Sonstelie concludes, it may need to invest more than it does now in education and focus that investment on low-income students.

The state invests more in districts that serve disadvantaged students

Data from PPIC indicate that most districts serving high proportions of low-income students already receive more funding than other districts in California, at least as a general rule. (See the box on page 7.) Much of this comes in the form of categorical programs, most notably federal Title I and state Economic Impact Aid, both targeted at disadvantaged children. When statisticians calculate statewide funding averages and compare California to other states, they include those programs,

© Copyright 2004 by EdSource, Inc.

which on a statewide basis represent about 5% of total funds for schools.

The selective distribution of those funds to districts with low-income students means that those districts are probably closer to the national average, while the districts with few low-income students are even further away in terms of state support. For suburban parents, that makes all the more stark the comparisons to suburban districts in New York or Connecticut where the funding levels often exceed $12,000 per student, an amount that is double what some California districts receive.

In many higher-income communities in California, parents dip into their own pockets—through fundraising or the passage of parcel taxes—to subsidize their local schools beyond what the state provides. The task of getting parents in those districts to forego state increases in their schools' funding in order to put more support into low-income schools would be, as Sonstelie puts it, "a tough political proposition." In fact, those parents' continued commitment to and political support of public education in California might hinge on how that proposition is resolved.

Most elementary and unified districts with low-income students receive more revenues

With the caveat that there is much variation from the averages, the Public Policy Institute of California calculated the difference in average total revenues (excluding Special Education) for districts that serve no low-income students versus those that serve 100% low-income students. The data show that while unified and elementary districts on average receive an augmentation for low-income students, the reverse is true for high school districts.

All revenues except Special Education, 2001–02

	Average revenues per pupil	Average augmentation per low-income student
Unified districts	$6,019	$1,018
Elementary districts	$6,108	$451
High school districts	$7,093	– $301

Table adapted from *High Expectations, Modest Means,* copyright 2003, Public Policy Institute of California.

Modest means and high expectations are at odds

The data regarding the low level of funding in California schools are compelling, particularly in the context of the high standards the state has set for academic performance. The Fordham Foundation has rated California's standards among the most rigorous in the nation. Further, given the state's current budget situation, additional funding seems nearly impossible without higher taxes of some kind, including perhaps a reconsideration of Proposition 13. There is some indication that momentum around this perspective is building. Early in 2004, for example, the California Teachers Association (CTA) mounted a petition drive for an initiative that would generate additional revenues for schools by changing the tax rate for commercial properties. Although CTA decided against putting that proposal on the November 2004 ballot, many observers expect that a similar measure may sooner or later be presented to voters.

Many Californians might applaud schools having additional funds but believe that simply putting more money into the same system would do little to improve student performance. Absent significant changes in how schools do business and account for it, any proposal for more funds is likely to face stiff opposition from the business community and others who want to see more from the schools, especially if they are being asked to pay higher taxes. That "more" includes higher achievement among students generally, with a particular emphasis on California's English learners and its low-income students who are predominantly Hispanic and African American.

It is in part to address these dual issues of funding and effectiveness that school finance experts and state legislatures throughout the country have been developing funding adequacy models over the last few years. This has often been in response to court mandates. These models attempt to "cost out" an adequate education system in order to answer the question of how much money would be enough for public education to meet its mission and improve the performance of the vast majority of students. The process of creating such a model for California is just beginning.

California officials are trying to estimate how much money is enough

In 2002 state lawmakers authorized the creation of the Quality Education Commission (QEC), which is charged with developing and costing out a "Quality Education Model." Its core objective is to determine the amount of funding needed to provide California's public school students with an opportunity to meet the high achievement levels set forth in the state's academic standards. This determination is seen as a first step in developing a state funding formula that would provide "adequate" educational services in local communities.

University of Southern California Professor Lawrence Picus has been among the experts developing these

© Copyright 2004 by EdSource, Inc.

The majority of states have undertaken adequacy studies

According to the Campaign for Fiscal Equity (CFE) at the Advocacy Center for Children's Educational Success with Standards (ACCESS), approximately 30 states have conducted adequacy or costing-out studies "to obtain rationally based, objective information on how to fund public education so that all students have a genuine opportunity to meet the learning standards." In some cases, courts ordered these studies when they deemed a state's funding system to be unfair. Courts became involved in Arizona, Arkansas, New York, Ohio, and Wyoming.

Instead of using the availability of funds to determine education funding levels, the costing-out approach estimates what schools need to educate students to meet high standards. A variety of methods exist to determine these costs, but three are used most frequently: successful schools, professional judgment, and effective strategies. Currently 28 states, including California, have completed or are completing costing-out studies. For more information, go to **www.accessednetwork.org** and click on "Costing Out Across the Country."

After completing their studies, many states decided they were under funding schools and established higher levels of base funding for an average student. Most states also supplement funding by allocating an additional amount to certain districts based on agreed-upon criteria. These vary but have included district type or size, school grade levels, and the types of students within a district. A weighting formula is often the vehicle for determining funding levels for each child within a district, with the average child designated as "1" and, for example, a Special Education child receiving a weighting of 1.2 or a high school student a weighting of 1. 4. Thus, if the district receives $5,000 for the average student, it receives $6,000 ($5,000 x 1.2) for a Special Education student. Each state has handled weights and set the amounts somewhat differently.

models in other states (see the box on this page), and he offers the following definition: *"Adequacy requires the provision of sufficient fiscal resources to enable all schools to deploy educational strategies that can educate nearly all their students to the state's proficiency standards."*

Implicit in this definition are the assumptions that *all* schools need sufficient resources and that *all* or nearly all students should meet the academic standards the state has articulated.

In California, the QEC is charged with providing the state with a target amount for adequate school funding. By definition this figure will include not only the amount necessary for educating the average student, but also additional funding amounts or weights based on the extra costs for educating English learners, students from low-income families, and those with disabilities.

The commission is likely to develop these estimates based either on professional judgments or on existing evidence regarding the combination of resources a school needs to meet state expectations. Typically, these approaches use the concept of a prototypical school to calculate the number of teachers and other staff needed in that school. The calculations posit an optimum class size and the appropriate number of extra administrative staff, instructional aides, and counselors.

Next, a weighting formula is used to determine the level of extra resources that should go to schools that serve high numbers of special needs students. Central to this approach is the well-supported concept that some students are more expensive to educate. Children who need to learn English require extra help to master the language and keep up with the academic content they are expected to learn as well. Children who come to school from impoverished home environments are often not as well prepared for school success as their more advantaged peers, particularly those with highly educated parents. They need more support in order to take full advantage of school instruction. They may also lack adequate nutrition and basic health care, making them less able to compete with other students. Students with physical and learning disabilities need extra services based on their individual situations. State and federal laws require local schools to meet those needs.

Based on these assumptions, average salary and benefit levels for staff combined with estimates for non-staff expenses are used to cost out the model. While the model itself represents a reasonable way to organize a school, it is not intended to mandate how every school should be organized. Rather, it gives researchers a way to arrive at a dollar amount they believe has some relationship to academic performance, a difficult assignment at best.

While a fair amount of research attempts to answer the question of "how much is enough," concrete connections between funding and school performance are more elusive. Experts continue to debate whether money makes a difference in school performance, or in what ways it can make a difference. Adequacy models are another step in those discussions meant to help guide the decisions of state leaders who must develop funding policies and want to make them congruent with their expectations for academic achievement.

In California, the assumption is that the adequacy model would represent a target for the funds the state controls, which include local property taxes, state funds, and federal monies. Currently, about 6% of school funds come from revenue sources under local control. The

© Copyright 2004 by EdSource, Inc.

sources can include such things as rental income, interest, private contributions, and parcel taxes. The amount of money available from these sources varies significantly among districts. As noted earlier, wealthier communities generally can and do raise more local miscellaneous revenues.

While some see the local ability to raise revenues as a vital component for a healthy school funding system, others say it is unfair to allow wealthier communities to supplement their public schools in this way. This issue is likely to be yet another point of contention in California's complicated school finance debate, particularly as long as California school districts do not provide the level of staffing and services available in other states.

The legislation creating the Quality Education Commission called for its work to take a year. Assuming that time frame is met, its findings will not go to the Legislature until spring 2005, well into the development of the 2005–06 state and education budgets. Economists project that California's budget crisis will not be quickly or easily solved and will continue to constrain education funding. This work by the QEC provides a backdrop for other proposals aimed at rethinking more limited aspects of the existing finance system that may also be moving forward. In addition, a possible settlement in the *Williams v. California* lawsuit could force the state to take action of some kind, with or without additional funds. (See page 13 for more on that lawsuit.)

Several strategies aim at improving California's existing funding system

Taken as a whole, California's convoluted school finance system has almost no defenders. But while all those concerned with education may have a part of the system they want to change, state leaders who have attempted to simplify things have consistently met with strong resistance from one or another education group—or local school district—that fears it might lose funds if the specific change were made. This is one reason many education advocates in California believe that unless the state provides more funds, structural changes to the system will prove to be politically impossible.

As the variety and number of efforts going on throughout the nation illustrate, the task of redesigning a state's school finance system is far from easy. The good news in California is that the discussion seems to at least be starting in earnest. A number of different recommendations are being informally talked about or formally proposed for reforming one facet or another of the system. In his 2004–05 state budget proposal, Schwarzenegger became the latest to call for change. Along with recommending a plan for consolidating state categorical programs, he mentioned the state's complicated process for calculating revenue limits as another target for reform.

It has been widely reported that Secretary for Education Richard Riordan is exploring school finance and management reforms based on the "weighted student formula" concept recommended by author and management Professor William Ouchi. The idea of decentralizing financial decision making to the school level is an underlying theme in Ouchi's proposals. Hanging over the entire discussion is the *Williams v. California* lawsuit, which calls for the state to do a better job of ensuring that all children receive basic educational services. None of these ideas for reforming the system, however, includes suggestions for how to increase funding or directly acknowledges the need to do so.

The state could improve the basic process for distributing general purpose funds to school districts

The foundation for every California school district's funding is its revenue limit. This general purpose funding is based on a per-pupil amount determined for each district individually. The worksheet a district uses to calculate its revenue limit starts with the amount of funding it received per pupil the prior year and then goes through multiple pages of computations, to say nothing of a list of additional accounting schedules that apply to selected districts. Together these calculations to some degree chronicle the adjustments state lawmakers have made to benefit one group of districts and then another over the three decades since the *Serrano* court decision first

Legislators authorize a California Quality Education Commission (QEC)

The 13-member Quality Education Commission (QEC) was authorized by the Legislature in 2002 based on a recommendation from the Master Plan for K–16 Education, a legislative effort that includes other recommendations reflected in legislation currently under consideration. The QEC was originally expected to begin its work in July 2003 and complete it a year later. However, the state's budget crisis and gubernatorial recall election both created delays, which finally appear to have been resolved.

To address the lack of state funding, the William & Flora Hewlett Foundation and the Bill & Melinda Gates Foundation in 2003 provided funds to support the QEC's work for one year. The state has formally accepted that offer.

By statute, the commission's 13 members are to include seven appointed by the governor and two each appointed by the superintendent of public instruction, the speaker of the Assembly, and the Senate Rules Committee. As this publication goes to press, Gov. Arnold Schwarzenegger has not yet announced his appointees. The first meeting of the QEC was scheduled to take place in May 2004.

© Copyright 2004 by EdSource, Inc.

figure 2 | **Average revenue limits over time show a change in high school support**

The data indicate that California has reduced by a substantial amount the extra subsidy for high school education that was originally built into the revenue limit calculations. If the funding differences between types of districts had remained constant, high school districts would on average be receiving about $1,800 per pupil more than they do today, and unified districts would be receiving almost $600 more.

Average 2003-04 revenue limits for small districts are as follows: elementary under 101 students, $5,516; unified districts under 1,501 students, $5,184; and high school districts under 301 students, $6,128.

Type of district	Average revenue limit (per pupil) in 2003-04	Difference by district type in 2003-04	Average revenue limit per pupil in 1977-78	Difference by district type in 1977-78	Hypothetical 2003-04 revenue limits if 1977-78 differences still existed
Elementary	$4,645	100%	$1,114	100%	$4,645
Unified	$4,843	104%	$1,244	112%	$5,420
High School	$5,585	120%	$1,480	133%	$7,427

Data: 2003–04 (as of 4/2/04), California Department of Education (CDE)
1977–78, CDE

EdSource 5/04

prompted the creation of revenue limits in 1972. Examples include adjustments for necessary small schools, for the beginning teacher salary program, and even for specific school districts.

Out of these calculations comes a per-pupil amount that ranges from about $4,400 at the low end to more than $8,000 in a few exceptional cases at the high end. However, about 98% of students attend school in districts that fall within a much closer range, and the outliers are generally quite small districts.

Some revenue-limit variations were purposely included in the system from its inception. When the state first set revenue limits, the governing principle was that high school students were more expensive to educate than elementary school students, and therefore the state should provide more base revenue for them. Given California's hodgepodge of school district types and sizes—elementary, unified, and high school districts ranging from fewer than 10 to hundreds of thousands of students—the result was a three-tiered system of revenue limits. The most money per pupil went to school districts that served only high school students, the least money to districts that served only K–8 pupils, and an amount in between to unified (K–12) districts. Then, acknowledging that smaller school districts are more expensive to operate, the state created a second set of revenue limits for small districts of each type. Figure 2 shows current revenue limit averages and also points out that the system's original subsidy for high schools has eroded substantially.

For the most part, district revenue limits were supposed to fall within bands (commonly called *Serrano* bands) that constrained the difference in revenue limit amounts among districts of the same type. Today the allowable difference within each band is about $350 per student, but there are some exceptions. Data providing the range that falls within the *Serrano* band is not routinely calculated and thus not currently available from the California Department of Education (CDE).

Per-pupil allocation is only a start

Each district's per-pupil allocation, however, is just the first step in determining total funding. The number of students comes next; for revenue limit purposes, what matters is how many children show up at school rather than how many enroll. State leaders based revenue limits on average daily attendance (ADA) to encourage districts to be diligent about student attendance. In 1998 they eliminated credit for students who were ill and adjusted the revenue limit formulas accordingly. If students do not come to school, districts lose funding. They can do little, however, to reduce expenses because their programs—and particularly the number of teachers—must be planned according to the number of students who enroll.

The general-purpose revenue system includes one additional set of exceptions historically called "basic aid" districts. State officials began referring to these as "excess tax" districts in 2003. For most school districts, revenue limit income comes from local property taxes, to which state funds are added. In about 80 districts, local property taxes equal or exceed what the districts would have received from their revenue limit funding. These districts keep the excess taxes and, up until the 2003–04 school year, also received a constitutionally guaranteed "basic aid"

© Copyright 2004 by EdSource, Inc.

allocation of $120 per pupil from the state. Legislators eliminated that allocation in 2003 (saying all districts receive at least that much per pupil in categorical programs) but allowed districts to keep their excess revenue.

In a few cases, in some very small districts, the base revenue amounts are dramatically higher than the state's average revenue limits. In 2001–02 the highest base revenue amount in the state was $26,175 per pupil for Fort Ross Elementary, a district of 57 students in Sonoma County. Many people argue that the very small number of students served in these districts is insignificant and that the net differences in revenue limits in the majority of districts are within reason. Others believe that all revenue limits should be equalized.

In 2001 legislators passed an equalization plan that has yet to be funded. That plan makes yet another set of adjustments to the current revenue limit calculation process aimed at raising the amounts in the lowest-funded districts. It does not affect the basic aid districts or those with extremely high base revenues.

There may be straightforward ways to simplify the system

Schwarzenegger voiced a more generalized complaint about the entire revenue limit system in his 2004–05 budget proposal: *"The current system, which is largely built on historical practice, is unnecessarily complex and results in significant funding complications among school districts that are difficult for parents, teachers, principals, and the general public to understand and can result in disparate levels of state support between districts."*

On the face of it, the solution to this problem could be fairly straightforward. The state could use the money now allocated to revenue limits to institute a student-based allocation system that would provide a uniform amount for each student, perhaps with some differential for grade levels based on the relative costs of education. Differences in district circumstances, such as small school districts, could be addressed by adding some extra funds for a few districts.

This change to the revenue limit system could be done immediately, without changing any other aspect of the funding system. To make sure individual districts are not hurt financially in this type of process, lawmakers could use a "hold harmless" provision that does not reduce funding for anyone but applies increases based on the long-term goal of equalization. Without this type of gradual phasing in or a major increase in funding, some districts would lose substantial amounts of money and would doubtless lobby hard against the idea.

Such a change would also prompt lively debate about how the per-pupil amount should be calculated, including whether high school students should get more, and if so, how much. It could also prompt discussion about which categorical programs might logically be rolled into the limit because many programs already provide funding to most, if not all, districts.

Reforms of other parts of the finance system, particularly categorical programs, have recently received more attention. Implementing them without addressing revenue limits, however, seems ill advised—a little like constructing a building on a shaky and uneven foundation. A plan for a new approach to general purpose funding could be one important outcome from the Quality Education Commission and a critical first step toward more dramatic changes.

The state could ensure sufficient funds for students with special needs

Revenue limits were created to address funding equity in California, but that was equity based on the concept of equal tax effort for local communities and equal general purpose or base funding for students. Today, the goal of providing all students with a reasonable and fair opportunity to achieve the same academic standards is causing educators and policymakers alike to think of equity differently. Increasingly, it refers to the idea of allocating resources in such a way that students who come to school with disadvantages receive additional support. The goal is for the vast majority of students to leave K–12 schools equally prepared for adult success, or at least having received an equal opportunity to become prepared.

California already supports students with special needs through categorical programs

Almost every California school district already receives some additional funding to educate students from low-income families, those who are English learners, and those with disabilities. These funds, some of which come from the state and some from the federal government, are allocated in the form of categorical programs.

The primary state program that supports low-income and English learner students is Economic Impact Aid (EIA). Districts receive a per-pupil amount set annually based on the number of children they serve in each category. For the purpose of identifying the low-income students, districts count those in the California Work and Responsibility to Kids (CalWORKS) program. They then add the count of English learners, effectively getting twice the funding for any child who falls into both categories. For 2003–04 the minimum funding rate was $220.78 per identified student.

The federal funds are separated into two separate programs: Title I for low-income students and Title III for English learners. Title I funds go to districts based on the concentration of poverty in the communities they serve.

© Copyright 2004 by EdSource, Inc.

figure 3 | **Estimates of California's current per-pupil allocations based on special needs**

The table below looks at the extra funds California provides to support low-income, English learner (EL), and Special Education students. While some of the numbers are estimates at best, they give an approximate indication of the amount California has earmarked in its major programs serving these populations.

Note also that the funding for Special Education students is distributed to districts based on their total student population. The actual expenditures for each individual Special Education student depend on the services the student receives and thus vary drastically.

Categorical Program (source & purpose)	**2003–04 Funding**	**Number of identified students statewide**	**Amount per identified student**
Title I (federal, for services to low-income students)	$1,999 million	3,006,877 students eligible for free/reduced price meals	$665
Title III (federal, for language instruc. for EL & immigrant students)	$443 million	1,599,542 students designated as English learners	$277
Economic Impact Aid (state, for services to English learners & low-income students)	$499 million	622,845 students in CalWORKS plus 1,599,543 students designated as English learners	$221 (minimum funding rate)
Special Education (state & federal, for students with disabilities)	$2,687 (state) + $951 (federal) = $3,638 million (total)	634,746 students	$5,731

Most districts also participate in other categorical programs that provide services for low-income students, including counseling and instructional support programs. In 67 districts and two county offices of education, the funding also includes Targeted Instructional Improvement Grants (TIIG), which totaled $738 million statewide in 2003–04. These grants—a consolidation of funding previously provided for desegregation—range from less than a dollar to more than $2,800 per pupil. Contrary to many people's perception, almost half of the districts that receive TIIG money are below the state average for percent of low-income students. Further, the amount per pupil has little discernible relationship to the characteristics of the student population in each district. Among the state's 12 largest school districts—those with more than 50,000 in enrollment—Santa Ana, Garden Grove, Elk Grove, and San Juan do not receive these funds.

Data: California Department of Education (CDE) EdSource 5/04

Districts then allocate funds to schools based largely on set formulas that depend on the proportion of students in a school that are identified as low income. For this purpose, districts have some discretion over the identification method they use. They can count them based on CalWORKS, the school lunch program, census data, Medicaid eligibility, or some composite of these measures.

The variations between the state and federal systems—and the overlap between low-income and English learner students—can make it challenging to determine precisely how much extra support is allocated for each student. But statewide estimates provide some perspective. Figure 3, which shows one approach to this calculation, indicates that California districts receive about $886 in additional funds per eligible low-income student plus another $498 for each English learner.

For Special Education students, the statewide average of $5,731 masks dramatic differences because student disabilities cover a wide range, thus requiring very different levels of extra service for a given student. At the extremes, a severely autistic child might require full-time placement in a private residential facility that costs tens of thousands of dollars per year, while a pupil with mild learning disabilities might receive two hours of extra instruction weekly from a resource specialist.

Estimates on how much is needed vary

In concept, a weighted student formula requires first agreeing on the appropriate level of supplemental funding for a given category of students. Then the same per-pupil amount would go to each school district—and theoretically to each school—for every student who fits the category. In California, one scenario might involve simply reallocating the funds provided through the major categorical programs mentioned above that are already supposed to go

© Copyright 2004 by EdSource, Inc.

to schools based on the pupils they serve. But districts vary in their approach to this. They also vary in the funds they receive from a number of other categoricals.

Experts disagree about precisely how much extra should be provided for these special needs students. Work done on funding adequacy and weighted student formulas elsewhere reveals substantial variation. The Annenberg Institute for School Reform reports, for example, that Cincinnati schools assigned a pupil weighting of 1.05 for students in poverty while Houston received a state-determined weighting of 1.20 for them. Houston also gave a weight of 1.10 for bilingual students compared to 1.056 in Milwaukee and 1.48 for English learners (ESL) students in Cincinnati. Gifted students receive a weight of 1.12 in Texas and 1.29 in Cincinnati. Weighting for Special Education students varies even more.

Ultimately, the determination of funding weights for various types of students is more than an analytical exercise. It involves intense and sometimes highly charged political discussions about which special student needs warrant additional support and what the level of that support ought to be.

Given that such a large portion of the funds for helping disadvantaged students comes from federal sources, any scheme the state develops will also have to comply with federal regulations. Some observers also worry that attaching extra funds to specific categories of students will serve as an incentive for local school districts to inappropriately label students in order to receive the funds.

But perhaps the thorniest question for California relates to what happens to the funds once school districts receive them. How are the resources allocated to school sites and are they being used as intended to provide extra support to disadvantaged students?

Special Education presents challenges

Special Education, with a combined state and federal allocation of more than $3.6 billion, is the largest categorical program. Federal law requires states to provide special services to children with disabilities and creates procedural rights for parents and children. State law in California specifies that each district must provide free, appropriate education to all qualifying individuals, ages infancy through 21, who live within district boundaries. Each special needs child has an Individualized Education Program (IEP) and is to be placed in the "least restrictive environment" that can meet his or her educational needs.

As of 1998–99 Special Education funding is based on the total number of students enrolled in a district rather than on the number of Special Education students and the services they receive. Money is allocated by regional SELPAs (Special Education Local Planning Areas) to districts and programs serving eligible students. About 11% of students in California receive Special Education services each year. Approximately two-thirds of those students attend regular classes, receiving some extra services or accommodations based on their disabilities. The other third receives instruction outside of regular classes or schools, usually because of severe disabilities. County offices of education often run programs for these students. A very small number of students require placement in private institutions, which can be extremely expensive.

In trying to plan for and control expenditures, school districts are sometimes unexpectedly affected by the need to accommodate a student (or students) whose IEP calls for very expensive services or placements. Failure to provide such services is illegal. To the extent that federal and state funds do not cover the costs involved, school districts must encroach on their general operating budgets to do so. In some instances, such encroachments cause serious financial problems, particularly in small districts where a single family moving in could create this situation. In other states, one strategy used for addressing this problem is the creation of "insurance-type funds," which pay for these high-cost students and effectively spread the financial risk related to these placements across the state as a whole.

The state could do more to ensure that districts distribute resources equitably among schools

Almost every school district in California receives some extra funding meant to help the disadvantaged students they serve, yet those funds may not always get to the schools those students attend. And even when the funds do follow the students, schools may not use them well.

Disparities in services at the school level are at the heart of *Williams*

In 2000 attorneys filed suit against the state of California on behalf of 97 students, charging that their schools did not provide the resources needed for a basic education. The *Williams v. California* lawsuit brought to light a phenomenon that many researchers say is common not only in California, but also throughout the country. Within a single school district, particularly a large urban district, some schools have unsafe or unhealthy buildings, outdated and insufficient textbooks, and a high number of uncredentialed teachers while other schools are properly maintained, well-supplied, and staffed with qualified people.

These disparities in school-level resources often correspond with students' economic status, and economic status often corresponds with ethnicity. Those students who need the highest level of educational services may end up receiving the lowest level. Data from the state's accountability system, for example, indicate that schools with the highest proportions of low-income students, English learners, and Hispanic

© Copyright 2004 by EdSource, Inc.

figure 4 **Among California districts, the diversity in enrollment and number of schools is substantial**

		Total	Median	Range (smallest to largest)
All Districts	Number of Schools	9,008	5	1 school to 694
	Student Enrollment	6,173,418	1,795	9 students to 746,852
Elementary	Number of Schools	2,409	2	1 school to 43
	Student Enrollment	1,246,893	598	9 students to 28,179
Unified	Number of Schools	6,018	10	1 school to 694
	Student Enrollment	4,321,097	5,310	27 students to 746,546
High	Number of Schools	581	5	1 school to 28
	Student Enrollment	588,591	3,404	134 students to 37,878

Note: These figures do not include California Youth Authority schools or schools in State Special or County Office of Education districts.

Data: California Department of Education (CDE) EdSource 5/04

and African American students are also the schools most likely to have inexperienced and uncredentialed teachers.

Although the state does not collect data on facilities and textbooks at the school level, documents filed with the courts on behalf of the *Williams* plaintiffs point to other evidence. For example, they note that in 1999 about 240 schools in the state operated on a multitrack year-round schedule that met state requirements for instructional minutes by lengthening the school day and shortening the academic school year to as few as 163 days instead of the 180 normally called for by law. These schools overwhelmingly serve Hispanic students and also have a disproportionately high percentage of English learners. Data from teacher surveys also showed that teachers in schools with high concentrations of at-risk students were substantially more likely to report textbook shortages.

Many people believe that inequities in resources are not only unfair, but also contribute to the huge achievement gaps among various student subgroups in the state. The concerns increase in light of the current expectation that all students reach high academic standards or suffer high-stakes consequences if they do not.

The *Williams* lawsuit says the state is responsible for these resource inequities, based largely on previous court rulings at the state and federal level. However, state leaders do not decide what resources individual school sites receive from their districts. In fact, the state counter-sued based on this argument.

The process by which funds and resources are distributed to individual schools varies substantially among California's 982 school districts. About 23% of districts have only one school, making their allocation system rather straightforward. On the other end of the spectrum are large urban school districts such as Los Angeles Unified, which has 694 schools and 11 subdistricts. Even tracing their site-level funding decisions can be a challenge, to say nothing of generalizing about their effectiveness. In between these two extremes are an assortment of elementary, unified, and high school districts of every size and shape. (See Figure 4.)

In *First Steps to a Level Playing Field*, leaders from an Annenberg Institute task force on urban school districts describe the traditional approach districts take in allocating resources to schools. Every school gets some staff regardless of size, such as the school principal. Every school also gets a certain number of staff members, particularly teachers, based on the number of students enrolled, as well as textbooks and supplies. Schools also get additional resources that vary based on differences in the age, size, or efficiency of the school building. The allocation of all these resources tends to be based on established districtwide formulas. Some schools then receive additional staff positions or funding to support special programs of various types.

Beginning in January 2002 California districts were to allocate the funds for a large number of these programs based on each school's "Single Plan for Student Achievement." Schools that participate in any state or federal programs included in the state's "consolidated application" process must develop a school plan. (See the box on page 15 for a list of these programs.) The plans, which are developed and approved by school site councils, must include the "proposed expenditure of funds allocated to the school through the consolidated application." The school district governing board reviews and approves the plan. The State Board of Education, in turn, approves the district's consolidated application, which is then used to distribute categorical funds to districts. Charter schools and county offices of education also use this process. (See an upcoming EdSource publication on charter schools, due to be released in June 2004.)

Student-based budgeting is one approach to change

Increasingly, education reformers are focused on making sure that both

© Copyright 2004 by EdSource, Inc.

general purpose and targeted categorical funds follow the student all the way to the school site. This is often what people mean when they talk about "weighted student formula" or "student-based budgeting." In *Making Schools Work,* UCLA management Professor William Ouchi describes how this budgeting process has been used in a few large urban school districts to distribute funding among schools more fairly, empower school site leaders, and in the process, improve student performance. In all the cases Ouchi cites in the book, the key was the process school districts used to distribute funds rather than any action taken at the state level.

Much of the attention around this type of district funding reform has been targeted at urban districts. The Annenberg Institute's "School Communities That Work" task force published a guide entitled *Assessing Inequities in School Funding within Districts.* This tool walks school district leaders through a series of calculations intended to help them discover hidden funding inequities. Central to these calculations is a weighted index that allows comparison of funding levels across schools while accounting for differences in student populations. A key point in the guide is that district officials are often honestly surprised by the differences they discover. Becoming aware of these inadvertent inequities can be the first step in addressing them.

These state and federal categorical programs are included in the "consolidated application"

Schools that receive funding from any of these programs must have a schoolsite council that develops and approves a Single Plan for Student Achievement.

State programs

- Peer Assistance and Review Program for Teachers
- Economic Impact Aid (State Compensatory Education and English Learner programs)
- Miller-Unruh Special Reading Program
- School Improvement Program
- School Safety and Violence Prevention
- Tenth Grade Counseling
- Tobacco Use Prevention Education Program

Federal programs (No Child Left Behind)

- Title I (Part A: Schoolwide, Targeted Assistance, and Neglected programs; Part D: Deliquent Program and Capital Expenses)
- Title II (Part A: Preparing, Training and Recruiting High Quality Teachers and Principals; Part D: Technology Education)
- Title III (Language Instruction for Limited English Proficient Students)
- Title IV (Safe and Drug-Free Schools and Communities)
- Title V (Innovative Strategies)

Researchers look at teacher assignment

One of the most difficult issues in equalizing resources for schools involves the assignment of teachers. University of Washington researchers Marguerite Roza and Paul T. Hill focus on this subject in a 2003 paper entitled *How Within-District Spending Inequities Help Some Schools to Fail.* Acknowledging that low-performing, high-poverty inner city schools are more difficult places to work and that teachers have little incentive for taking those assignments, the authors say:

"It is therefore not surprising that teachers with enough seniority to make choices seek the positions in the more advantaged schools. Struggling schools are left with no means to lure the most experienced teachers, particularly those with good reputations who can readily find jobs elsewhere in the district. Poor schools are often left with the low-paid rookies, many of [whom] will transfer to other schools once they've gained some experience."

In most districts, this phenomenon gets coupled with a teacher assignment and budget reporting process based on students per teacher and average teacher salaries. The vast majority of districts do not calculate school-level expenditures using actual salaries and benefits paid to individuals. Thus a school with 20 inexperienced, low-salary teachers shows up as receiving the same resources as a school with 20 teachers that command twice the salary. Add to that the fact that the former is likely to be the school with the most disadvantaged students and the extent of the inequities starts to become clear.

Teacher-assignment processes in California are within the scope of collective bargaining and thus negotiated at the district level. Typically, teachers with seniority are given first choice when openings are available at a school. In many cases, district officials, school principals, and existing staff at a site have little influence over who teaches there.

Roza and Hill go on to describe how state and federal regulations for providing additional funds based on student characteristics do not question this salary averaging, and in the process can even exacerbate inequalities. They recommend that districts, at a minimum, change their accounting practices to make resource allocation transparent, "tracking real dollar spending on a per-pupil basis, using real teacher salaries, not averages."

Their proposal goes further, however, recommending state policies

© Copyright 2004 by EdSource, Inc.

that could also address this area of school district practice. *"If states made it clear that dollars were generated by children, and should follow children to the schools in which they enroll, they could then demand that districts report real-dollar per-pupil funding, and explain any situations in which dollars intended for poor or disadvantaged students are spent instead on others."* By comparison, California's current fiscal reporting requirements do not require school-level reporting at all.

One way to evaluate resource allocations could be an "opportunity to learn" index

An alternative proposal that would create site-level reporting of resources, but not dollars per se, is commonly called an "opportunity to learn" index. The basic idea is that some measure of the resources available at a school—including qualified teaching staff, books and other supplies, and safe facilities—should be included in public accountability reporting alongside performance measures.

In the 2003–04 legislative session, state Sen. John Vasconcellos is sponsoring a bill that would establish as part of the state's accountability system an Opportunities for Teaching and Learning (OTL) Index. The index would measure these opportunities "as evidenced by access to high quality learning resources, conditions, and opportunities, based on standards that specify what all schools should have available for instruction and support." The bill specifies that the superintendent of public instruction would determine which indicators to use for this purpose, but that the indicators would have to include the number of credentialed teachers, availability of textbooks, physical condition of the site, overcrowding, availability of counseling services, and at high schools the adequacy of course offerings. All of these would be measured and reported at the school level. Legislation establishing such an index was passed by lawmakers in 2003 but vetoed by former Gov. Gray Davis, who said he was reluctant to add mechanisms that would complicate state education policy and could distract parents, students, and teachers from the state's existing accountability system.

The *Williams* lawsuit may force California to grapple with the issue of within-district inequities. As this publication goes to press, discussions are underway regarding a possible settlement. Absent an agreement, the case is now scheduled to go to trial in the fall of 2004. If the plaintiffs prevail, the case may lead to new policies in California aimed at these inequities. Absent such a resolution, the issues raised in the case could still help frame an important discussion about how to use school finance and resource allocations to address student performance issues, particularly at the site level.

For the most part, proposals for addressing within-district inequities are aimed squarely at large urban school districts. As is so often the case in California, applying them to all districts in the state, with their varied circumstances, could have unintended consequences. For this reason, many experts on education policy recommend that any important change in a state's funding system first be implemented as a pilot that can be evaluated. This type of cautious approach gives educators and policymakers a chance to test their theories, discover and address implementation challenges, and make improvements to policy before they make sweeping changes that are difficult or impossible to reverse.

The state could work to balance local flexibility and state oversight

In education circles in California, much of the critique of the school finance system is directed to the problem that it has become so complicated that almost no one understands it. The result is a lack of transparency regarding how the system works. The administrative complexities can make it difficult for those who manage the finances to see the implications of their allocation decisions or explain them. And many stakeholders—including parents, the media, teachers and principals, business people, and community leaders—are unable to discern the lines of control over expenditure decisions. When things are managed badly, or when student performance fails to improve, the public does not know whether the responsibility lies with teachers, school principals, district officials, or state leaders.

Accountability is a major goal of the current system

The irony is that accountability has been one objective throughout the creation of the existing system. Many categorical programs were created to limit local discretion in specific spending decisions. The state's continued inertia around categorical reform comes, at least to some extent, from a profound distrust that most local districts will "do right" if left on their own. Part of that distrust involves concerns that funds not earmarked for specific purposes will be considered fair game during salary negotiations and end up being used to increase salaries and benefits for employees. In addition, thanks to a 1979 voter initiative, the state Constitution requires the Legislature to provide funds whenever it "mandates a new program or higher level of service on any local government" (California Constitution, Article XIII B, Section 6). That requirement has been one reason categorical programs have proliferated in the last 25 years.

California's system of academic standards, however, opens up the possibility of giving local educators

© Copyright 2004 by EdSource, Inc.

greater flexibility over their operational decisions while holding them accountable for performance. The state's actions to outline what should be taught, establish standards for how well students should perform, and adopt universally applied measures of that performance are seen as the building blocks for that kind of accountability. Some go so far as to say that the results are really what matter and schools should be given the greatest possible flexibility as long as they then take responsibility for improving student achievement.

California's proposed Master Plan for K–16 Education, for example, states as its goal a school finance system that achieves a balance between accountability on one hand and local flexibility on the other. It assumes that schools will be held accountable for meeting student performance goals set by the state. The plan says:

"The state would focus clearly on the academic achievement goals it wanted for all students and the resources necessary to achieve those goals, but would clearly understand that there is no single 'best way' to achieve those goals. We would therefore dramatically reduce state reliance on categorical allocation of funds. Rather, we would ensure that all education institutions had the base of funding determined to be adequate to achieve the goals established for them, and allow them to locally determine how best to use those funds to achieve the learner outcomes we expect."

Business leaders propose a variety of salary incentives aimed at teacher accountability

In its statement *Investing In Learning,* the national Committee for Economic Development (CED) states that:

"Teachers (and other educators), like virtually all other professionals, should be evaluated on how well they perform on the job. Some part of their pay should reflect this performance. Good teachers should be rewarded financially; ineffective teachers who are unable to improve should not only see poor performance reflected in their pay but ultimately should be removed from the classroom."

Adding that they believe pay-for-performance is a very important tool for motivating and retaining good teachers, the authors also acknowledge that teaching is not like business and that it presents special circumstances.

The authors note that the term "performance pay" actually encompasses a variety of compensation strategies, such as group versus individual rewards and permanent raises versus one-time bonuses. Each of these strategies has presented challenges in the past that need to be acknowledged and addressed. Performance pay can also reward different aspects of performance. One approach is to tie rewards to student test results or other outcomes. Another is based on teacher knowledge or skills. Yet another strategy involves providing salary premiums for teachers in hard-to-find disciplines, most notably math and science.

The committee emphasizes another point that may help garner more support for its perspective in education circles: Performance pay will cost more than current teacher salaries. "Business leaders and others who support wider use of pay-for-performance plans in schools must also be prepared to support the costs necessary to implement and sustain them," the authors stated. **www.ced.org**

Some advocates and researchers support financial incentives

Some advocates and researchers, including the Committee for Economic Development (CED), believe that financial incentives are integral to effective school accountability. California's accountability efforts originally incorporated this idea by rewarding schools that met their API targets with extra money for the schools as a whole and for their staff members personally, particularly teachers. The state discontinued those incentives after a short time due to budget constraints.

The CED and other business leaders put even greater stock in the power of creating salary schedules based at least in part on teacher performance. Some states and local school districts, most recently the Denver Public Schools, are experimenting with ways to incorporate performance incentives into the teacher salary schedule. California state law gives school districts the flexibility to negotiate with their unions "regarding payment of additional compensation based upon criteria other than years of training and years of experience." Passed in 1996, these provisions of Senate Bill 98 made possible the development of pay-for-performance approaches in individual school districts.

Consolidating categoricals has been an ongoing debate

On the other hand, the state has debated long and hard the issue of too many categorical programs, but with little to show for it. In 1993 the Legislative Analyst's Office (LAO) recommended that the state consolidate its multitude of categorical programs into a smaller number of block grants. A decade later, the LAO was still making essentially the same recommendation. In the intervening years, other state leaders made proposals to the same end, yet the number of categorical programs continued to increase as long as new funds were available. Another bill recommending a block-granting approach has been introduced in the 2004 legislative session.

Schwarzenegger, in his 2004–05 Budget Proposal, put forward his own recommendation to provide spending

© Copyright 2004 by EdSource, Inc.

flexibility for funds currently allocated in 22 categorical programs, totaling about $2 billion. The proposal is for the funds to be added to district revenue limits based on the prior allocations. The amounts for each district vary to a greater or lesser extent, depending on the specific program. The administration chose programs that were not highly restrictive or targeted at special needs students, but have had stable funding levels. Examples, with proposed funding levels for 2004–05, include:

- Home-to-School Transportation ($520 million);
- School Improvement Program ($396 million);
- Supplemental Grants ($162 million);
- Targeted Instructional Improvement Grants ($759 million);
- Instructional Materials ($175 million);
- Staff Development Days ($236 million); and
- Multitrack Year Round Education ($84 million).

The state laws, policies, and requirements related to these programs would remain in the Education Code.

To Learn More

- Redesigning School Finance Project at the Center for Reinventing Public Education: **www.crpe.org**
- Annenberg Institute's School Communities that Work project: **www.schoolcommunities.org**
- Public Policy Institute of California: **www.ppic.org**
- Information on the *Williams v. California* lawsuit: **www.decentschools.org**
- Information about costing-out studies nationwide from the Advocacy Center for Children's Educational Success with Standards (ACCESS): **www.accessednetwork.org**
- For a more extensive bibliography online, go to: **www.edsource.org/pub_abs_rethink.cfm**
- For EdSource publications on this topic, go to **www.edsource.org** and click on publications. Look for *How Much Is Enough?* (4/00), *"Weighted Student Formula" Concept Enlivens School Finance Debate* (5/04), and *Building Political Will to Reform California's School Finance System* (4/04).

The funding framework given to the Quality Education Commission by the Legislature recommends that the state limit categorical programs to three types. The first is programs based on "a limited set of differential costs, primarily geographic in nature, that are not under the control or influence of school districts." The second is programs based on student characteristics that clearly call for additional services, with the added recommendation that those encompass only Special Education, English learner, and low-income students. The third category of programs would be identified as "initiatives" with the clear intent that they be limited in duration and either function as pilots to evaluate new programs prior to statewide implementation or meet immediate and temporary needs.

These ideas about local flexibility run headlong into the state's responsibility for assuring that all children receive an appropriate education. The *Williams* lawsuit contends that the state needs to have a formal process for overseeing the distribution of resources between districts and schools. Historically that has been categorical programs. The "opportunity to learn" index described earlier is seen as an alternative or additional strategy that would focus both state and local attention on school districts' spending decisions and improve accountability without mandating how such a large portion of the funding is spent.

What should California do to improve its school funding system?

The complexities, inconsistencies, and inequities of California's school funding system are legion and legendary. Repeated attempts to fix one part of the system or another have generally ended in political gridlock. The Schwarzenegger administration has made a public commitment to try "reaching consensus on a less complex and disparate approach." Time will tell whether this latest attempt succeeds.

In dealing with the numerous technicalities of the state's funding approach, Californians need to keep sight of one straightforward goal—improving student achievement. Money and its allocation affect that goal by either promoting or inhibiting the creation of school environments that build student and educator capacity and motivate them to improve performance. To that end, three guiding principles seem most important if the state is to fundamentally redesign its system: striving for funding adequacy and fairness, balancing flexibility and accountability, and keeping the system as simple and transparent as possible.

Strive for fairness and adequacy

In the late 1990s California's state leaders raised expectations for school and student performance. According to many observers, the state now has the highest K–12 academic content standards in the country. A serious and compelling question is whether schools in this state have the resources they need to have a reasonable chance of meeting those goals. The Quality Education Commission may at least provide a long-range target for California. An unwillingness or inability on the part of California's policymakers or voters to make that level of investment may call into question whether the state's goals are realistic.

To meet its student-performance goals, the state must also make sure that an appropriate and fair share of the resources are being invested in the education of the state's English learners, low-income students, and students with disabilities. An extra investment in those students may be necessary if they are to have a fair opportunity to achieve at the high level the state has established as its standard.

Creating a roadmap for these twin goals of adequacy and fairness must first address the funds state leaders allocate to school districts. How much does it cost

© Copyright 2004 by EdSource, Inc.

to provide the necessary educational services for the average student to reach the state's proficiency goals? Does that answer vary based on students' ages or where they live in the state? Further, how much more does it cost to educate a child if he needs more than an average level of services to meet the same expectations? And what are the realistic limits to what the public is willing to support in this regard?

Second, Californians need to consider the extent to which current teacher assignment and budgeting policies in school districts inadvertently perpetuate student underachievement among disadvantaged students. Is there sufficient political will to take on these tough issues that affect collective bargaining rights and teacher satisfaction? And do the solutions lie in state policy changes or local action, perhaps including financial incentives?

Finally, what is fair to communities that want to and can contribute to support their children's schools? If the state has provided adequate basic educational opportunities for all students, then have "equal funding" issues been sufficiently addressed? Should more meaningful options for local revenue-raising ability, such as a 55% vote on parcel taxes, be instituted even if that might mean schools in wealthy communities would have resources others would not?

Balance flexibility and accountability

Given that no single approach to organizing a school or delivering instruction has been proven to work to improve all students' performance, allowing local educators a measure of flexibility is widely acknowledged as important. They need the chance to use their best professional judgment about what will meet the needs of their students—as long as the standards are set and educators are held accountable if they fail to meet them.

Most recently, policymakers have begun debating the merits of radically decentralizing the control of schools and school budgets in order to improve their effectiveness. Central to this notion is the idea of personal and professional accountability for those who manage the schools, particularly school principals. While these ideas relate to the school funding system, they also raise a host of issues beyond the scope of this report, such as principals' capacity to handle these responsibilities. Germane to this discussion, however, is the fact that whether or not the system is decentralized, the state remains responsible for the educational opportunities its schools offer to every student individually and to all students collectively. It must balance that responsibility against any notions of local flexibility.

One strategy for balancing flexibility and accountability involves strengthening the ability of both state officials and the general public to judge the performance of public education down to the local school level. With its Academic Performance Index, California has taken steps to provide the public with a clear picture of student performance at its schools, at least as measured on statewide tests. An opportunity to learn index offers one way to bring the same level of transparency to the questions of whether a school has the resources it needs to provide a solid education and if those resources are being used wisely.

Other systems of accountability may also be necessary, however, before state officials and the public would feel comfortable giving local schools more flexibility. Many believe that, to be effective, the consequences for not performing well have to fall clearly and personally on the adults in the system. Would Californians extend such consequences to include fewer job protections for educators on one hand and more lucrative, permanent salary incentives on the other? Is the creation of market-based incentives—such as schools of choice and vouchers—a logical extension of this thinking? What alternatives from this diverse list would do the most to build the capacity of educators and motivate them to improve their performance?

Keep it simple and transparent

As researchers and policymakers consider various options for redesigning all or part of California's school finance system, one lesson from the current situation should stand out. The complexity of the system does not serve the public's interests or enhance the quality of education. A system that is simple and transparent—from the state to the district and from the district to the school—would enable the general public to understand how much money their local schools receive, how they spend it, and who to hold responsible

Websites increase the transparency of financial decisions

Technology is making it easier for people to see how districts allocate their funds, the students they serve, and the results they get.

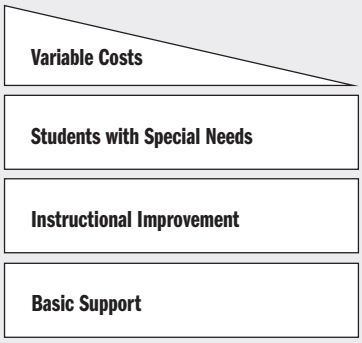
A new national data service slated for completion in the fall of 2004 will merge demographic, performance, and financial data for California school districts. Created by Standard and Poor's, the School Evaluation Services website (**www.sp-ses.com**) includes a "Performance Cost Index" that rates a school district's "Return on Resources." Reports for three states were available on the site in April 2004.

A new "pop trend" feature on the Education Data Partnership website (**www.ed-data.k12.ca.us**) enables the public to see how district revenues and expenditures, teacher salaries, student demographics, and Academic Performance Index (API) scores have changed over time. In addition, the comparison reports on the site allow users to compare districts and schools based on a wide choice of criteria.

© Copyright 2004 by EdSource, Inc.

for those decisions. It would also make it easier for policymakers to evaluate the impact various investments have on student performance and adjust school expenditures accordingly. And absent that clarity—including an effective system for tracking and reporting that information—how will Californians know what any new investment in education has accomplished?

The diagram below provides a simple representation of the components of an education funding system. Grouping allocations into these general categories provides an organizing principle for understanding what current state allocations are and how to change them. It may also help finance reformers think about which types of funding should and should not be earmarked.



Developed and presented by John Mockler, former executive director, State Board of Education.

EdSource Forum, March 2004

According to this schematic, at the base of the revenue system is basic, general operating support. Next are funds targeted to aspects of instructional improvement over which the state believes it needs to retain control, such as textbooks and some professional development. The next block is those funds that are targeted to meet the special needs of specific groups of students, such as English learners and low-income students. On top are costs that vary based on unique district circumstances outside of a district's control, such as small size and unusual transportation costs.

Decide on revolution or evolution

"Blow the whole thing up and start over" is a commonly heard and only slightly facetious piece of advice regarding California's school finance system. Those who have tried to tinker with the Gordian knot of existing formulas and regulations are often the ones who throw up their hands and recommend that finance reformers just start with a clean piece of paper. Doing this would require that some group—perhaps the Quality Education Commission, the Legislature, or the public through an initiative—develop the plan and muster sufficient political support to make it law. In many states, this has only occurred because of a court order.

At one level the idea of revolution is appealing, but those who have seen the results of the last finance revolution, begun with the *Serrano v. Priest* court decision, worry about unforeseen and unintended consequences. A more gradual approach would be to reform the various components of the existing system, perhaps piloting some ideas like block-grant categorical programs to test their effect. Or the state could let some selected districts operate under a completely revamped finance and accountability system—such as one that includes decentralization of decision making to the school level—to see what is possible and where the pitfalls are. However, state leaders have tried similar evolutionary ideas before with little support from the field and nominal success.

Will this time be different? Are Californians who care about public schools convinced that the school funding system is getting in the way of school improvement? Assuming they are, the next step is for them to find enough common ground among their competing interests so they can agree on what a new system might look like and how this state should go about creating it.

EdSource®
Clarifying Complex Education Issues™

Trish Williams
EdSource Executive Director

2003–04 EdSource Board of Directors

Kelvin K. Lee, President
Superintendent, Dry Creek Joint Elementary School District

Peter Schrag, Vice President
Contributing Editor, Sacramento Bee

Lawrence O. Picus, Fiscal Officer
Professor, Rossier School of Education, University of Southern California

Robert G. Haskell, Secretary
Senior Vice President, Public Affairs, Pacific Life Insurance Company

Ray Bacchetti
Scholar in Residence, Carnegie Foundation for the Advancement of Teaching

Davis Campbell
President, California School Boards Association Governance Institute

Susan J. Cochran
President, American Association of University Women–California

Christopher Cross
Distinguished Senior Fellow, Education Commission of the States

Brenda Davis
President-Elect, California State PTA

Joni E. Finney
Vice President, National Center for Public Policy and Higher Education

Gerald C. Hayward
Senior Partner, Management, Analysis, and Planning, Inc.

Ann Nkiruka Ifekwunigwe
National Board Certified Teacher, Carthay Center Elementary School

Jacqueline Jacobberger
President, League of Women Voters of California

Paul J. Markowitz
Teacher, Las Virgenes Unified School District

M. Magdalena Carrillo Mejia
Superintendent, Sacramento City Unified School District

John B. Mockler
President, John Mockler & Associates

Ted Olsson
Manager, Corporate Community Relations, Western United States, IBM Corporation

Amado M. Padilla
Professor of Education, Stanford University

Krys Wulff
Director-at-Large, American Association of University Women

© Copyright 2004 by EdSource, Inc.

Selected Readings on California School Finance

Chapter 7
"Getting Down to Facts" Research Study Summaries

More than 20 research studies on school funding, governance, data, and staffing were released on March 15, 2007, as part of an independent research effort called Getting Down to Facts. This effort was funded by four foundations and led by Stanford University's Institute for Research on Education Policy and Practices (IREPP). Summaries of seven of those studies are included in this chapter. To see summaries of the remaining studies, go to www.edsource.org/reform_GDTFsummaries.html, where you can also find a link to the complete studies.

INSTITUTE FOR RESEARCH ON EDUCATION POLICY & PRACTICE
Informing change & promoting innovation through rigorous & collaborative research

Aligning School Finance with Academic Standards:

A Weighted Student Formula Based on a Survey of Practitioners

By Jon Sonstelie, University of California, Santa Barbara, and Public Policy Institute of California

This study uses budget simulations completed by teachers, principals, and district superintendents to answer a central question: What resources do California schools need to ensure that more students meet the academic standards set by the state? Answering this question requires addressing several intermediate questions:

1. How would education professionals design an effective school and use extra resources if they were available?
2. What student performance outcomes do professionals predict based on changes in student characteristics and school-level resources?
3. What are estimated costs for each school district, factoring in district-level expenditures, and how do they vary?
4. Based on the above information, what is the estimated level of total spending needed for California's public schools to meet the state's goal of an 800 on the Academic Performance Index (API) or related targets for the percent of students scoring proficient or above on the California Standards Tests (CSTs)?

This is one of three studies in the Getting Down to Facts *project that estimate the costs for California school districts to meet the achievement goals set for them by the state.*

Study Methods

This study uses a method for estimating education costs that was inspired by professional judgment panels. Using online budget simulations, it asks 567 randomly selected California public school teachers, principals, and superintendents how they would allocate resources within a given budget and what student performance outcomes they would expect.

Each participant is presented with a description of a hypothetical school, including the characteristics of its students, along with a budget for that school and the costs of various school resources. Participants then select the quantities of each resource they believe would maximize the academic achievement of the school's students. After making these choices, participants predict the academic achievement of the school. Their focus is on the state's Academic Performance Index (API) for the school as a whole, the percent of students proficient on the 8th grade California Standards Test in math for middle schools, and the graduation rate for high schools. Participants complete multiple simulations with different budget amounts.

The budget simulations incorporate certain efficiencies not currently found in the existing school finance system. For example, the assumption is that school leaders have the authority to allocate resources as they deem most appropriate (i.e., they are not constrained by allocation rules associated with categorical funding). The participants are also asked to assume that they can hire certified teachers at the given price.

The description of each participant's hypothetical school is taken from his or her actual school. The schools for the study are selected from a random stratified sample, and then participants are selected based on their association with the schools. When a school is chosen, its principal is invited to participate. School principals are then asked to volunteer teachers. Superintendents, randomly selected to participate, did the simulation for one school in their districts.

STANFORD UNIVERSITY

Getting Down to Facts

A research project designed to provide California's policymakers and other education stakeholders with comprehensive information about the state's school finance and governance systems, and lay the groundwork for a conversation about needed reforms. The project was made possible by grants from the Bill & Melinda Gates Foundation, the William and Flora Hewlett Foundation, the James Irvine Foundation, and the Stuart Foundation.

This summary was prepared by IREPP.

For the full text of the author's research report and the other studies in this project, see: **www.irepp.net**

For background on California's school finance system see: **www.californiaschoolfinance.org**

Institute for Research on Education Policy & Practice
520 Galvez Mall, CERAS Building
Rm #518
Stanford, CA 94305

650.736.1258
IREPP@suse.stanford.edu

Figure 1 • Estimated Resource Choices for the Average Elementary School with 583 Students

Resource	Unit of Measure	$4,000/ Student	$6,000/ Student
Teachers			
Kindergarten	FTE	4.5	5.2
Grades 1–3	FTE	13.1	14.1
Grades 4 and 5	FTE	6.6	7.8
Specialty		1.3	2.2
Administration			
Principals	FTE	1.2	1.2
Assistant principals	FTE	0.2	0.5
Clerical office staff	FTE	2.1	2.7
Support Staff			
Instructional aides	FTE	1.3	6.0
Counselors	FTE	0.4	0.7
Nurses	FTE	0.3	0.6
Librarians	FTE	0.4	0.9
Security officers	FTE	0.1	0.2
Technology support staff	FTE	0.4	1.0
Community liaisons	FTE	0.3	0.6
Professional Development			
Academic coaches	FTE	0.2	1.4
Collaborative time	Hours/year/teacher	40.5	59.0
Student Programs			
Preschool	Students	0.4	1.6
After-school tutoring	Teacher hours/week	18.1	40.8
Summer school	Students	60.2	119.8
Longer school year	Days/year	-0.3	4.3
Longer school day	Hours/day	0.0	0.3
Full-day kindergarten	1=yes 0=no	0.5	0.6
Computers for instruction	Computers	65.5	151.5
Other	$ thousands	-14.5	52.5
Class Size			
Kindergarten		21.4	18.7
Grades 1–3		22.2	20.7
Grades 4 and 5		29.3	24.8

The descriptions, budgets, and costs vary among the participants, revealing how a large group of professionals view the relationship between school budgets and student achievement. Participants work independently and do not know how their responses affect the overall results of the study. The 568 simulations included 190 elementary schools, 189 middle schools, and 189 high schools.

From these individual estimates, the author calculates the average predictions based on specific budget levels for elementary, middle, and high schools separately. In addition, he calculates a confidence interval for the budget estimates for each type of school and at each budget level.

The simulations and resulting estimates exclude a wide variety of school district costs, such as district administration, transportation, maintenance and operations, and special education. The author uses actual expenditure data from 2003–04 to arrive at costs for a school district with average revenue per pupil, adjusting for external factors such as student characteristics.

The study then combines the school-level budget estimates (aggregated by school district) with the estimated district expenditures to arrive at a total projected cost for California.

Summary of Key Findings

Elementary, middle, and high school educators differ in staffing ratios, but they would use additional resources similarly

In the simulations, budget scenarios and student characteristics varied widely. The average resource choices presented here are based on two different school-level budgets: $4,000 per pupil, approximately average for the state in 2003–04, and $6,000 per pupil, a 50% increase. These school-level resources represent more than 60% of district expenditures.

Elementary educators would spend a resource increase disproportionately on support staff and would lengthen instructional time

The first column of Figure 1 shows how elementary school participants would spend current resources. When given 50% more resources (last column), participants would generally make increases across all areas of school operation. They would increase the number of teachers by about 15% in order to reduce class sizes, most notably in grades 4 and 5. They would also provide extra administrative support, spending about 27% more.

Increases in other areas are more substantial in proportion, though each represents a smaller part of the total budget than teacher costs. Those include a tripling of support staff and an increase in academic

coaches from a fifth of one full-time-equivalent (FTE) person to 1.4 FTE. The cumulative results also increase the collaborative time teachers spend working together on curriculum, assessment, and pedagogy from 40.5 to 59.0 hours per year.

With a larger budget, hours of instruction also increase: the school day is lengthened by 18 minutes and the school year by four days. Student programs—including preschool, summer school, and after-school tutoring—also receive substantially more resources.

Figure 2 • Estimated Resource Choices for the Average Middle School with 950 Students

Resource	Unit of Measure	$4,000/ Student	$6,000/ Student
Teachers			
Core	FTE	28.1	34.6
Non-core	FTE	5.9	8.0
P.E.	FTE	4.3	6.2
Administration			
Principals	FTE	1.2	1.3
Assistant principals	FTE	1.5	1.9
Clerical office staff	FTE	4.1	5.0
Support Staff			
Instructional aides	FTE	5.8	7.7
Counselors	FTE	2.0	2.8
Nurses	FTE	0.6	0.9
Librarians	FTE	1.0	1.3
Security officers	FTE	1.3	1.7
Technology support staff	FTE	0.9	1.5
Community liaisons	FTE	0.8	1.2
Professional Development			
Academic coaches	FTE	1.5	3.1
Collaborative time	Hours/year/teacher	44.7	122.1
Student Programs			
After-school tutoring	Teacher hours/week	55.6	133.1
Summer school	Students	204.5	271.2
Longer school year	Days/year	0.6	4.9
Longer school day	Hours/day	0.0	0.6
Computers for instruction	Computers	149.5	322.2
Other	$ thousands	18.7	74.0
Class Size			
Core		27.0	22.0
Non-core		32.4	23.8
P.E.		44.4	30.6

Middle school educators would increase resources across the board, but they would put special emphasis on teacher collaboration and increased instructional time

For the school with the baseline resources, middle school practitioners specified larger class sizes and more administrators than their elementary counterparts. With an expansion of the budget by 50%, the data in Figure 2 show increases for resources in all areas, but with some notable differences from the elementary patterns. In particular, the teaching staff increases by 27%, reflecting educators' reduction of core class sizes from 27 to 22 students, non-core classes from 32.4 to 23.8 students, and P.E. classes from 44.4 to 30.6 students. Middle school respondents averaged a 20% increase in administrative support, but their baseline allocation in that area was much higher in terms of FTE per pupil than their elementary counterparts.

The larger budget produces notable percentage increases for professional development, with the number of academic coaches doubling and collaborative time for teachers nearly tripling. The after-school tutoring program also nearly triples in size, and the school year is lengthened.

High school educators would specify smaller classes and more staff, and they would use increases largely for support staff, professional development, and student support programs

High school educators' average expenditure choices at the lower budget level varied in some notable ways from their middle school counterparts. (See Figure 3 on page 4.) They allocated more for teachers, thus creating smaller class sizes in both core and P.E. classes. They called for almost 21% more administrative staff per pupil and about twice as many counselors and security officers, as was the case with the middle school group. The 50% increase in budget resulted in less dramatic changes in teaching staffs than at middle schools, increasing teachers by about 27 percent. With more money to spend, participants emphasized support staff, professional development, and student programs.

Educators predict that increased student poverty strongly hinders school performance, while resource increases have a modest positive effect

The predictions that participating educators make about student

Figure 3 • Estimated Resource Choices for the Average High School with 1,789 Students

Resource	Unit of Measure	$4,000/ Student	$6,000/ Student
Teachers			
Core	FTE	43.6	52.4
Non-core	FTE	26.3	34.3
P.E.	FTE	4.5	5.7
Administration			
Principals	FTE	2.0	2.1
Assistant principals	FTE	2.2	3.2
Clerical office staff	FTE	7.3	11.4
Support Staff			
Instructional aides	FTE	5.2	13.8
Counselors	FTE	4.0	5.6
Nurses	FTE	0.7	1.1
Librarians	FTE	1.2	1.9
Security officers	FTE	2.2	3.9
Technology support staff	FTE	1.7	2.6
Community liaisons	FTE	0.6	1.7
Professional Development			
Academic coaches	FTE	1.5	4.1
Collaborative time	Hours/year/teacher	42.5	100.1
Student Programs			
After-school tutoring	Teacher hours/week	63.2	153.9
Summer school	Students	346.1	598.9
Longer school year	Days/year	2.4	4.4
Longer school day	Hours/day	0.4	0.8
Computers for instruction	Computers	328.4	606.1
Other	$ thousands	39.5	205.7
Class Size			
Core		24.2	20.2
Non-core		33.4	25.7
P.E.		38.9	30.6

achievement lead to two important conclusions:

1. Student poverty, as measured by the percentage of students participating in a school's subsidized lunch program, has a strong negative effect on student achievement.
2. A larger budget can be used to increase student achievement, but the effect is modest.

The average elementary school—with 573 students and a budget of $4,000 per student—illustrates these points. If none of the students is classified as poor, the average prediction of simulation participants is that the school will achieve an API of 843. If all students are poor, the average prediction is an API of 698. An increase in the school's budget of $1,000 per pupil increases the predicted API by just 13 points. At the highest budget in the simulations—$7,600 per pupil—the average API predicted score rises to 745, well short of the 800 goal.

Participants in the middle and high school simulations make similar predictions. These participants are also told the average achievement of students in their school's feeder schools, and that information has an important effect on their predictions. Even so, participants believed that very high budgets would be necessary for schools serving low-income neighborhoods to meet the state's achievement standards.

Participants' predictions vary substantially, creating a wide "confidence interval," especially as budgets get further from the current budget level

The author produces estimates for budgets required to meet state academic standards based on average predictions of simulation participants and incorporating formulas for the relationship between funding, student characteristics, and student outcomes. However, because predictions of individual participants vary considerably, a different set of participants would not produce exactly the same average prediction.

To represent this uncertainty, the study presents a confidence interval for each of the estimates. Figure 4 on page 5 shows this for the elementary school estimates and reveals that the confidence interval is quite wide, especially as the budget estimate gets further from current spending levels.

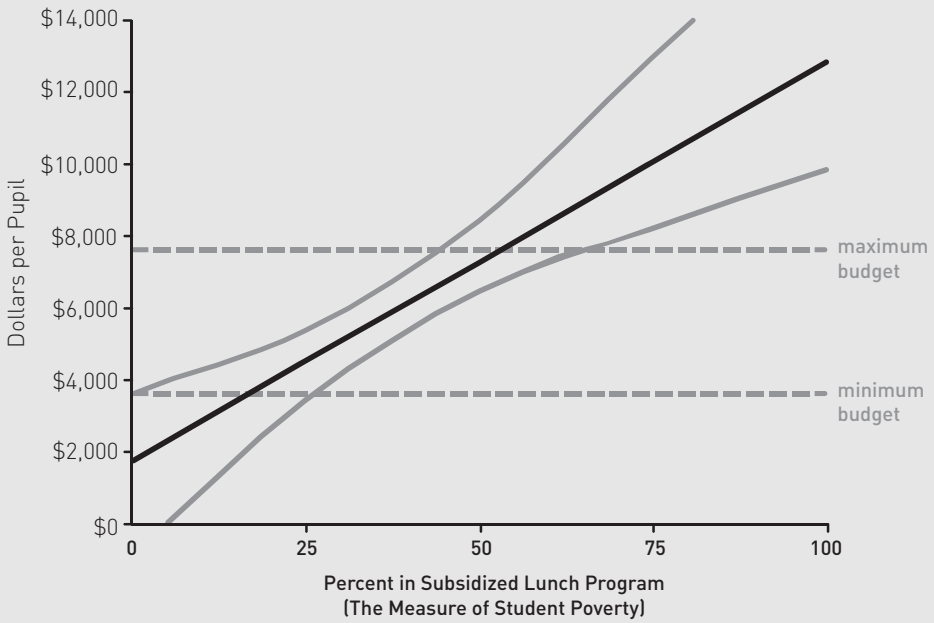
For the average elementary school in which 52% of students participate in the subsidized lunch program (the measure of student poverty), the estimated budget is $7,430 per pupil. However, the 90% confidence interval runs from $6,403 to $8,368 per pupil. It is also notable that the budget estimates for reaching an API of 800 exceed the maximum budget in the simulation in some cases and fall short of the minimum budget in others. The estimates from the middle and high school simulations have the same general characteristics. (The author does similar analyses for other variables, including the percent of English learners, but student poverty shows the greatest and most consistent effect.)

The analysis provides school-level costs per pupil that vary substantially due to factors such as student poverty

The school-level budget equations are the first step in estimating the cost to each district of meeting the state's achievement standards. The equations determine a projected cost for every school, and the author then aggregates these costs to the district level. The resulting estimated per-pupil costs to reach a school-wide API of 800 vary widely across California school districts. When districts were ordered by cost per pupil, the bottom 5% had school-level costs of less than $2,579 per pupil. For the top 5%, the cost per pupil was at least $11,963.

Because these estimates span from less than the lowest-given budget in the simulation to more than the highest-given, the author does not believe that these very high and low estimates are accurate enough to provide useful information. Instead, he cuts off the budgets to match the highest and lowest in the simulation and gives the estimates for these truncated ranges. The results are that about half the schools have predicted APIs of 800 or more. For middle and high schools, the median predicted API is 797. For elementary schools, it is 796. However, many schools have predicted APIs considerably below 800. For elementary schools, 20% have APIs between 736 and 761. For middle and high schools, the equivalent ranges are 750 to 776 and 758 to 783, respectively.

Figure 4 • Estimate and Confidence Interval for Elementary School Budget Required to Meet State Achievement Standard of 800 API



The dashed lines in this figure represent the minimum and maximum budgets provided in the simulations.

The dark line in the chart represents the average for the relationship between the Budget and Poverty variables in the author's formula, which predicts how each affects performance.

The light blue lines are the boundaries of a 90% confidence interval for the Budget variable. To be precise about this interval, consider a particular level of the Poverty variable and the predictions of all educational practitioners about the budget necessary for a school with these characteristics to achieve the target API of 800. Now take the average of those budget predictions. With a probability of 90%, that average lies within the confidence interval portrayed here.

Adding district costs to the simulated budgets yields total cost estimates

As noted above, these school budget estimates exclude a wide variety of school district costs, including district administration, transportation, special education, and maintenance and operations. The author uses existing expenditure data to factor in the costs of these activities to the school budget estimates and then adjusts the total for regional differences in employee compensation.

The analysis suggests that a per-pupil funding average, weighted by regional cost differences and student poverty, could fairly account for cost variations

These costs reflect a complex set of variables. However, the author is able to approximate them by using a relatively straightforward formula that sets the average dollars per pupil at $9,533 and considers just two variables: regional salary costs and the percentage of school-age children living in poverty. A district in a region with average salaries that has an average amount of student poverty would need $9,533 to meet the state's achievement standards. If salaries in the district's region were 10% ($5,186) higher than the state average, the district would need an additional $586 per pupil. If student poverty were 10% (1.8 percentage points) higher than average, the district would need an additional $120 per pupil.

The study includes a discussion of how this approach could be used to adjust revenue limit formulas in California. (The full study also provides estimates of revenues needed for each of the 950 school districts that had complete data.)

At least an estimated 40% increase in funding, targeted mostly to low-income schools, is needed to meet current expectations

The study draws on complete data for 950 districts out of the state's 986, based on financial information from 2003–04. The adjusted total cost for these districts to meet the state's goals was $60 billion. In contrast, expenditures in the same districts in 2003–04 totaled $43 billion. In the aggregate, this represents a cost increase of about 40%. The bulk of these additional costs are due to resources needed to boost achievement in schools primarily serving students from low-income families.

Author's Conclusions

The author presents several caveats in regard to the findings of this analysis, based in part on the lack of solid evidence regarding the relationship between resources and student achievement:

- Many factors besides resources affect achievement, thus limiting the predictive power of studies of this kind.
- The simulations ask participants to predict student achievement for hypothetical schools with more resources than any school they have experienced.
- Because California is still in the early stages of its new system of academic standards and accountability, the participants may have underestimated what students will ultimately be able to achieve.

Currently, the essence of California's school finance system is that the Legislature appropriates funds to K–12 education as dictated by Proposition 98 and allocates those funds among school districts in proportion to their enrollment. The author concludes that California's new academic standards require a different approach that starts with the fundamental question of what resources schools need for their students to achieve those standards. The simulations conducted for this study point to two broad conclusions with implications for answering that question. The first conclusion is that student poverty has a strong, negative effect on academic achievement. The second is that school resources have a positive, but modest, effect.

The implication is that if all schools are to achieve the same high standard, as California's current policy dictates, then schools serving low-income neighborhoods need more resources than other schools. Furthermore, because poverty has a large effect on achievement and resources have a modest effect, California's policy implies that the resource differences across schools based on student backgrounds could be very large.

Jon Sonstelie is a professor of economics at the University of California, Santa Barbara, and a senior fellow at the Public Policy Institute of California (PPIC). For PPIC, he has coauthored a number of reports on school finance in California, including For Better or For Worse? School Finance Reform in California; High Expectations, Modest Means: The Challenge Facing California's Public Schools; *and* School Budgets and Student Achievement in California: The Principal's Perspective.

This study was completed in December 2006.

INSTITUTE FOR RESEARCH ON EDUCATION POLICY & PRACTICE
Informing change & promoting innovation through rigorous & collaborative research

Assessing the Costs of K-12 Education in California Public Schools

By Jennifer Imazeki, Department of Economics, San Diego State University

STANFORD UNIVERSITY

The objective of this study is to estimate the costs for California districts to meet the achievement goals set for them by the state and examine how these costs vary across districts with different student characteristics. The author asks:

1. What do the data show about the current relationship in California school districts between spending and both costs and student outcomes?
2. What would it cost for California districts to meet the achievement goals set for them by the state, and how do these costs vary across districts with different student characteristics?

This is one of three studies in the Getting Down to Facts *project that estimate the costs for California school districts to meet the achievement goals set for them by the state.*

Study Methods

The primary methodology used in this study is the econometric cost-function approach. Cost functions for K–12 education provide estimates of base costs (i.e., per-pupil costs in a district with relatively low levels of student need) and marginal costs (i.e., the additional costs associated with specific student characteristics) for poverty, lack of proficiency in English, and special education. The author also conducted a parallel production-function analysis of the data, which looks at outcomes as a function of spending to test the robustness of the cost-function model. These statistical methods attempt to quantify the relationship between student outcomes and costs for districts with a variety of characteristics. To evaluate the validity of her estimates, the author compares her results with findings from more than 20 cost studies in other states.

Data on current expenditures, students, district characteristics, and performance are used in the analysis

This study uses existing state data provided by school districts within California. The data in the analysis[1] include:

Spending data based on general fund per-pupil expenditures for 2004–05.

Cost factors, including:

- A teacher-cost index (developed by Heather Rose, 2007) based on variations in compensation arising from factors outside districts' control.

Terms used in this analysis

- **Cost of education:** the minimum amount of money that a school district must spend in order to achieve a given educational outcome. Costs generally differ across school districts for reasons that are outside the control of local school boards or state government, such as the number of children with special needs, cost-of-living differences that can affect salary levels, and the extra costs—or diseconomies of scale—associated with very small and very large districts.
- **Base cost:** the cost for a low-need district to achieve the state standard (i.e., a district with relatively low levels of poverty, few English learners, etc.).
- **Marginal costs:** the additional costs associated with specific student or district characteristics. These are generally expressed as additional per-pupil weights. For example, if the base per-pupil cost were $5,000 and the weight for a student in poverty was 50%, the district would receive an extra $2,500 for that student, for a total of $7,500.

Getting Down to Facts

A research project designed to provide California's policymakers and other education stakeholders with comprehensive information about the state's school finance and governance systems, and lay the groundwork for a conversation about needed reforms. The project was made possible by grants from the Bill & Melinda Gates Foundation, the William and Flora Hewlett Foundation, the James Irvine Foundation, and the Stuart Foundation.

This summary was prepared by IREPP.

For the full text of the author's research report and the other studies in this project, see: **www.irepp.net**

For background on California's school finance system, see: **www.californiaschoolfinance.org**

Institute for Research on Education Policy & Practice
520 Galvez Mall, CERAS Building
Rm #518
Stanford, CA 94305

650.736.1258
IREPP@suse.stanford.edu

- Student demographic data related to special needs:
  - Poverty: a two-year average (2003–04 and 2004–05) for the percentage of students who qualify for free/reduced-priced meals.
  - Disabilities: the percentage of students classified as having any disability and the percentage who have a high-cost disability.[2]
  - English learners (ELs): two-year averages for the percentage of EL students with a primary language of Spanish (to account for assumed economies of scale in schools with significantly higher proportions of Spanish speakers) and for the percentage of EL students who speak some other language.
- The proportion of each district's student body enrolled in high school to accommodate differences in cost based on grade level.
- Enrollment data for each district (and enrollment squared) to reflect potentially high costs (diseconomies) associated with both small and large districts.

Performance measures that reflect test scores for the 2004–05 school year, used in separate regressions:

- School district API scores.
- Percent scoring proficient or above on the California Standards Tests (CSTs) in English language arts and math.[3]

Summary of Key Findings

Current variations in per-pupil spending in California school districts are not strongly connected to variations in the cost of education

The data used in this analysis show that there is significant variation in spending per pupil across the state as a whole. They also reveal few consistent patterns in the distribution of funds based on student characteristics. Spending is slightly higher in districts with high proportions of students in poverty, English learners, or special education students. However, in each case, the 20% of districts with the highest proportions of those students do not have the highest average spending. Spending is highest in the smallest and largest districts.

Performance measures, on the other hand, are highly consistent with student characteristics. As the percent of students in poverty, the percent of English learners, and district size all rise, the average API and CST scores consistently fall.

The study also estimated the extent to which each of the spending and cost variables affected student performance. The cost- and production-function approaches produce widely different estimates. For example, a district that has an API of 750 and is currently spending $8,000 per pupil would need only $181 more per pupil to reach an API of 800 using cost-function estimates. But this same district would need an increase in spending of $11,600 using production-function estimates.

The analysis also shows that costs related to district performance rise with:

- The percent of students in poverty,
- The percent of students who have disabilities,
- The percent enrolled in high school, and
- Regional teacher wage costs.

Costs also vary based on district size, with average costs lowest in a district with 28,992 students and higher as the size either increases or decreases. The data also suggest that non-Spanish ELs are more costly to educate than Spanish-speaking ELs. This may reflect economies of scale associated with the large concentrations of Spanish speakers in some districts.

The cost-function model estimates that California school districts need up to $1.7 billion more overall to achieve state API goals, but the production-function model estimates $1.5 trillion more

Using the cost-function approach, the study provides an estimated base cost—or minimum—of $5,832 per pupil (in 2004–05 dollars, including food service and transportation) for a low-need district to reach an API of 800. Then it adds marginal costs based on the "observed data" (i.e., the existing funding patterns in California). The calculated marginal costs related to student characteristics are:

- Poverty 30%
- ELs/Spanish speakers 8%
- ELs/non-Spanish speakers 24%
- Special Education/all disabilities 113%
- Special Education/high-cost disabilities 668%

Adding these marginal costs, the total per pupil "cost of education" for districts varies from the minimum base cost of $5,832 to a high of $23,818, with an average of $8,268. However, 90% of districts fall between $6,678 and $11,011.

Taken in the aggregate, the estimated total cost for all districts to reach an 800 API is $45.1 billion. This is in contrast to a total cost of $43.4 billion for all districts to simply sustain their current API scores, a difference of $1.7 billion.

The study provides an additional estimate based on student weights derived from the cost function. The total based on those calculations rises to $49 billion, which is $5.7 billion or 13% more than current funding levels. It is noteworthy that the estimates imply that the current system of school finance appreciably underfunds districts with the highest needs. For example, among the districts with the highest levels of poverty, actual per-pupil expenditures are an average of 16% lower than the estimates of cost-adjusted spending.

The production-function estimates bring into question the accuracy of the results from the cost-function model. Production functions estimate the effect of spending on outcomes instead of starting with the outcomes and examining their relationship to spending. Using the production-function method, the author finds only a weak relationship between spending and

outcomes. As a result, she estimates that to improve outcomes *only through spending increases* would require a large influx of dollars—$1.5 trillion.

Author's Conclusions

In sum, the current distribution of spending per pupil across California districts is not well-correlated with factors that increase costs and decrease performance, such as students living in poverty or English learners. Although the cost-function methodology provides only weak evidence of the quantitative relationship between overall spending and outcomes, the cost-function estimates of *marginal* cost (i.e., the additional cost for specific factors such as poverty) are consistent with other studies in California that use alternative methodologies. However, the estimates are somewhat lower than those found in studies from other states. It is also noteworthy that even the conservative cost-function estimates imply that the current system of school finance appreciably underfunds districts with the highest needs.

Jennifer Imazeki is an associate professor in the department of economics at San Diego State University. She received her Ph.D. in economics from the University of Wisconsin-Madison, where she also worked as a researcher for the Consortium for Policy Research in Education. Her research includes work on adequacy and school finance reform, teacher salaries and teacher mobility, and school choice. This study was completed in January 2007.

Endnotes

1 The analysis also used a measure of local district competition that proved to not be significant.

2 Examples of such disabilities are autism, deaf, deaf-blind, orthopedic impairment, traumatic brain injury, visual impairment, or multiple disabilities.

3 Separate regressions were estimated using both average scores and scores for subgroups of poor, African American, and Hispanic students.

Institute for Research on Education Policy & Practice
Informing change & promoting innovation through rigorous & collaborative research

Efficiency and Adequacy in California School Finance: A Professional Judgment Approach

By the American Institutes for Research (AIR)
Jay Chambers, Principal Investigator; Jesse Levin, Principal Research Analyst; and Danielle DeLancey, Project Manager

STANFORD UNIVERSITY

Getting Down to Facts

A research project designed to provide California's policymakers and other education stakeholders with comprehensive information about the state's school finance and governance systems, and lay the groundwork for a conversation about needed reforms. The project was made possible by grants from the Bill & Melinda Gates Foundation, the William and Flora Hewlett Foundation, the James Irvine Foundation, and the Stuart Foundation.

This summary was prepared by IREPP.

For the full text of the author's research report and the other studies in this project, see: **www.irepp.net**

For background on California's school finance system, see: **www.californiaschoolfinance.org**

Institute for Research on Education Policy & Practice
520 Galvez Mall, CERAS Building
Rm #518
Stanford, CA 94305

650.736.1258
IREPP@suse.stanford.edu

This report presents the results of a "professional judgment" panel study focused on answering a central question: What is the cost of providing all California public school students with access to the California content standards and the opportunity to achieve proficiency levels established by the California State Board of Education? The study addresses several intermediate questions:

1. What types of programs and services do panels of education professionals believe are necessary for typical schools to meet state standards?
2. How would the same professionals adjust those programs, services, and resources for schools serving varying numbers of high-need students (i.e., students living in poverty, English learners, and students with disabilities)?
3. What are the total estimated per-pupil costs when district services are added? And how do those costs vary based on district location and size?
4. How does the estimated total cost of providing an adequate education in California compare to current expenditures?

This is one of three studies in the Getting Down to Facts *project that estimate the costs for California school districts to meet the achievement goals set for them by the state.*

Study Methods

This study uses a "professional judgment" approach. The research team selects highly qualified California educators for two professional judgment panels convened for three days of deliberation.[1] These panels are asked to design instructional programs for average elementary, middle, and high schools such that all students would have the full opportunity to meet outcomes set forth by the State Board of Education.

The first program-design task for the panels is that all students should have access to instructional programs and services consistent with the California content standards in English language arts, math, history/social science, science, visual and performance arts, English language development (where appropriate), and physical education. Additional school performance outcomes are stipulated based on the state's performance targets established for the 2011–12 school year and consistent with federal requirements under the No Child Left Behind Act (NCLB). Specifically, these outcomes included:

- A 95% participation rate in state testing;
- English language arts proficiency rates of 78.4% for elementary and middle schools and 77.8% for high schools;
- Mathematics proficiency rates of 79.0% for elementary and middle schools and 77.4% for high schools;
- A California Academic Performance Index (API) score of 740 in every elementary, middle, and high school; and
- A high school graduation rate of 83.4%.

After designing instructional programs for California schools with "typical" student demographics, the panels are asked to modify these instructional programs for schools with varying levels of students living in poverty, English learners, and special education students. In addition, panelists are asked to make instructional modifications for "typical" schools of varying sizes.

Based on the panels' deliberations, researchers first develop school-level cost

Figure 1 • Suggested Breakdown of Expenditures for Elementary School Base Model Programs (a school of 516 students; 57% low income, 28% English learners, and 9.2% special education)

	Blue Panel		Gold Panel	
Resources	Per-pupil Cost	Proportion of Total Cost	Per-pupil Cost	Proportion of Total Cost
Instructional Personnel	$5,682	59%	$5,768	78%
Instructional and Pupil Support	1,667	17%	280	4%
Administrative and Support	693	7%	559	8%
Maintenance and Operations	85	1%	212	3%
Nonpersonnel Expenditures	733	8%	482	7%
Extended Day Program	290	3%	91	1%
Extended Year Program	465	5%	0	0%
Total	**$9,615**		**$7,392**	

Note: The percentages do not always equal 100% due to rounding.

School-level Resource Definitions Used in this Study

- **Instructional personnel:** core classroom teachers, resource teachers, and instructional aides.
- **Instructional and pupil support:** guidance counselors, school psychologists, academic coaches, social workers, nurses, librarians, and technical consultants.
- **Administrative and support:** principal, vice principals and deans, other professional staff, clerical and office staff, and security personnel.
- **Maintenance and operations:** custodial, maintenance, and security personnel assigned exclusively to the school.
- **Nonpersonnel expenditures:** professional development time and fees, supplies and materials, specialized equipment and technology, and student activities.
- **Extended day program:** teachers and aides assigned to provide before- or after-school instructional programs and additional nonpersonnel expenditures specific to the program.
- **Extended year program:** teachers, aides, and school administrators used for summer school programs and additional nonpersonnel expenditures specific to the program.

estimates for delivering an adequate education, taking into account varying school levels, sizes, and demographic configurations. The costs of district-level functions—such as central administration, maintenance, and transportation—are then calculated in two ways: (1) based on actual 2004–05 expenditures (as derived from the states' Standardized Account Code Structure [SACS] fiscal data); and (2) as a proportion of the projected school-level costs. This second calculation assumes that spending on at least some district-level functions will change proportionally with changes in the school-level instructional program. The researchers added the average from these two calculations to the school-level results to determine their final cost estimates.[2]

The authors use the resulting dollar amounts, adjusted for student-need characteristics and the scale of district operations—plus actual data for California schools—to estimate school-level, per-pupil costs to provide an adequate education for students at every school in the state. From this basis they derive an overall statewide average per-pupil expenditure required to implement the instructional programs recommended by the panels. They also produce average per-pupil expenditures broken out by four different district categories based on location, including urban, suburban, towns, and rural districts.[3]

Summary of Key Findings

Both panels of education professionals report that more resources are necessary for average schools to meet state standards

To meet the outcomes set by the State Board of Education, the panels design instructional programs that differ substantially from today's typical California schools. The panels reduce class sizes, extend the instructional day and year for all students, and add specialists to work with small groups of students and to foster professional development opportunities for teachers. High-quality professional development is reported to be integral for improving student achievement and retaining quality teachers. The panels emphasize that student achievement is not necessarily dependent on the number of personnel at the school level but on how their roles and time are allocated.

Figures 1 through 3 on pages 2 and 3 reflect the panels' specifications for "base model" instructional programs at the elementary, middle, and high school levels, detailing per-pupil expenditures and the proportion of resources allocated to various instructional components. The instructional designs vary by school level and the two panels (the "Gold" and "Blue" panels) have different program designs, which ultimately lead to a wide range of cost estimates. The authors stress that they do not recommend that the specific components of the models become mandates for local practice.

Figure 2 • Suggested Breakdown of Expenditures for Middle School Base Model Programs (a school of 992 students; 51% low income, 17% English learners, and 9.8% special education)

	Blue Panel		Gold Panel	
Resources	Per-pupil Cost	Proportion of Total Cost	Per-pupil Cost	Proportion of Total Cost
Instructional Personnel	$6,175	69%	$5,453	69%
Instructional and Pupil Support	868	10%	1,036	13%
Administrative and Support	557	6%	597	8%
Maintenance and Operations	44	0%	308	4%
Nonpersonnel Expenditures	755	8%	475	6%
Extended Day Program	244	3%	30	0%
Extended Year Program	262	3%	0	0%
Total	**$8,905**		**$7,899**	

Note: The percentages do not always equal 100% due to rounding.

Figure 3 • Suggested Breakdown of Expenditures for High School Base Model Programs (a school of 1,662 students; 33% low income, 12% English learners, and 9.2% special education)

	Blue Panel		Gold Panel	
Resources	Per-pupil Cost	Proportion of Total Cost	Per-pupil Cost	Proportion of Total Cost
Instructional Personnel	$6,103	66%	$4,905	70%
Instructional and Pupil Support	1,181	13%	545	8%
Administrative and Support	616	7%	550	8%
Maintenance and Operations	53	1%	289	4%
Nonpersonnel Expenditures	947	10%	536	8%
Extended Day Program	165	2%	79	1%
Extended Year Program	219	2%	131	2%
Total	**$9,284**		**$7,035**	

Note: The percentages do not always equal 100% due to rounding.

Both professional judgment panels keep small elementary class sizes, but they vary in expenditures for support personnel

For the elementary school programs, both panels extend the school day and year to allow more time for direct instruction. Both also specify schoolwide ratios of 20 students per teacher, with smaller kindergarten classes and slightly larger classes for grades 4 and 5. Both also specify the need for academic coaches or resource teachers to work with at-risk students and to coach other teachers.

The panels diverge with respect to the funds that they would allocate for support personnel and for nonpersonnel expenditures. The Blue Panel specifies a full-time social worker, school nurse, guidance counselor, and technical assistant; but the Gold Panel concludes that these jobs could be part-time positions or that other personnel could assume the responsibilities of those positions.

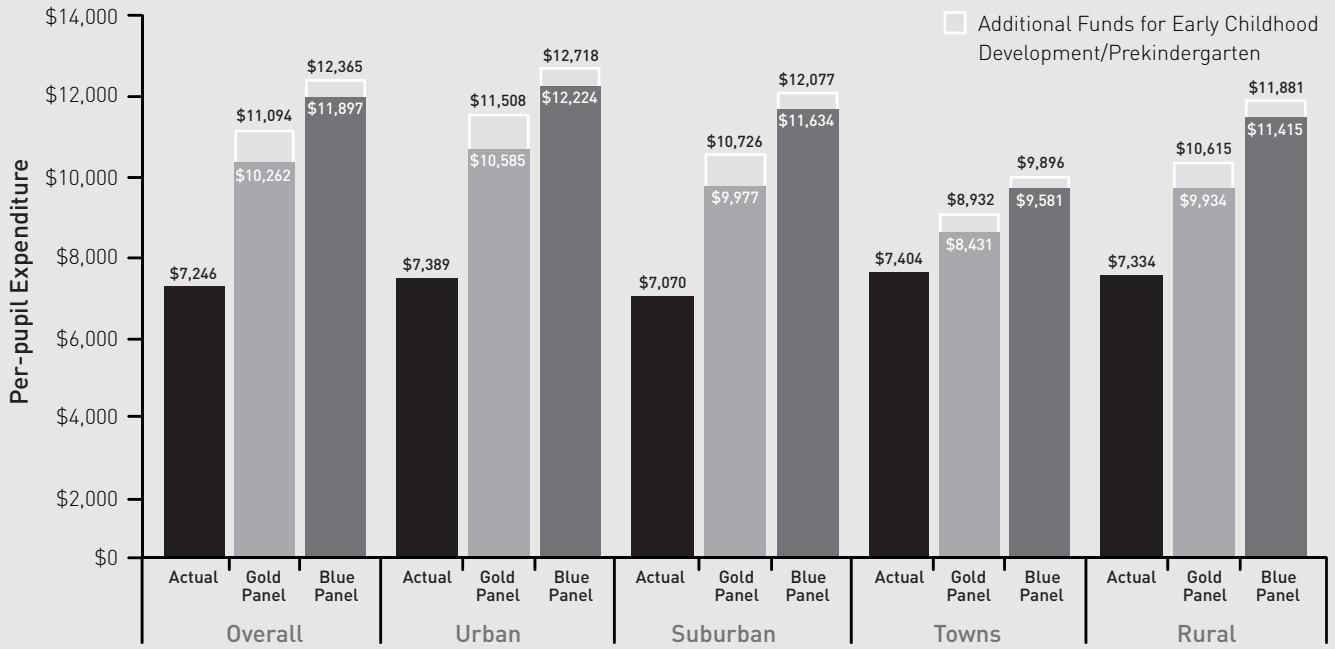
Both panels identify preschool and early childhood education programs as key resource needs. They say how many children would be served but were not asked to specify the cost of providing these programs. Instead, the authors use independent research to determine the per-pupil cost of providing quality preschool and early childhood education programs based on the panels' specifications, and they add those costs to their final estimates.

At the middle school level, the panels emphasize instructional personnel but vary in their staffing recommendations

For their middle school models, both panels allocate a similar proportion of expenditures to each instructional component, assigning approximately 70% of expenditures to instructional personnel. However, the Gold Panel specifies the need for more resources overall, including additional instructional personnel and smaller class sizes.

Although the panels' costs for instructional support personnel differ, they both specify approximately 20 full-time equivalent professional and administrative support staff at their base model school. Both panels also prescribe after-school programs—

Figure 4 • Comparison of Actual Versus Adequate Per-pupil Expenditures Based on Professional Judgment Panels: Overall and by District Locale



targeted for at-risk populations—for approximately 55% of the students.

For high schools, the panels emphasize extra time for at-risk students and additional support personnel

For high schools, the panels specify nearly identical proportions of per-pupil expenditures for each instructional component. To meet the stringent graduation requirements, both panels extend the school year and prescribe summer school for a high percentage of the student population, specifically targeting at-risk students. Academic coaches and resource teachers play a significant role in the high school instructional programs.

However, the Blue Panel specifies significantly higher levels of per-pupil resources in order to create smaller class sizes, offer more electives to keep students engaged, and facilitate smaller learning communities. In addition, this panel allocates more academic coaches, technical consultants, and other support personnel to achieve the desired outcomes.

With additional special-needs students at a school, the panels add staff and specialized resources

After designing instructional programs and specifying resources for the base models, the panels were asked to adjust their program designs and resource allocations based on both lower and higher percentages of low-income students, English learners, and special education students. As a general rule, the panels do not make major modifications when these high-need populations are reduced. In part, they justify this by noting that the current average outcomes for the schools are still significantly lower than the target levels outlined in the goals statement. Increases in the percentages of these students, however, has substantial impact on the panels' projections for needed expenditures.

The panels specify smaller classes and more support staff to serve higher percentages of low-income students, plus specialized resources for English learners (ELs)

For school prototypes with higher levels of poverty than in the base models, both panels specify smaller class sizes and additional support personnel. They also increase the number of students targeted through after-school, preschool, and early childhood education programs. Anticipating more discipline issues and less experienced teachers, the panels also add more administrators, resource teachers, and academic coaches to provide extra teacher support.

For schools with higher levels of English learners, panelists make several modifications in addition to the adjustments for poverty. Both panels increase the number of bilingual and English language development teachers and aides, and they add funds for EL-specific curriculum, technology, software, and supplies. Additional monies are also designated for professional development.

The panels incorporate special education students into the regular program but add support systems

Regardless of school size, panelists in both groups designate one special day class with at least one full-time aide to meet the needs of special education students. In addition, special education instructional aides are assigned to assist full-time personnel, and school psychologists, social workers, nurses, and counselors are assigned at the school level.

In schools with increased percentages of special education students, the panels increase special day class teachers, aides, and on-site resource specialists. They also increase the number of support personnel, such as speech therapists, and allocate additional monies for specialized equipment and materials.

Total costs, adding district services and accounting for variations, are highest in urban districts

The authors assign costs to the Blue and Gold panels' program designs and then calculate total projected per-pupil expenditures by applying a district-level cost factor calculated from existing district expenditure data. Resource costs are also adjusted across districts to reflect geographic variations in the cost of recruiting and employing comparable teachers and other school personnel in various regions of the state.[4] The authors then compare the total projected expenditures from the school prototypes to the actual per-pupil expenditures reported in the CDE's 2004–05 SACS fiscal files.

In addition to the overall statewide average, the authors provide average per-pupil expenditures within different types of districts. The district categories include urban, suburban, towns, and rural districts. (See Figure 4 on page 4.) These figures are pupil-weighted so that they represent per-pupil expenditures for the district attended by the average student within each of the four district categories.

The statewide average "adequate" per-pupil expenditures for the 2004–05 school year range from $11,094 (Gold Panel) to $12,365 (Blue Panel), which represents a 53% to 71% increase over what was actually spent that year ($7,246). However, the figures show large variation across the four district categories. The results suggest that students in urban districts require the highest per-pupil expenditures (from $11,508 to $12,718) to provide an adequate education, while necessary per-pupil expenditures are lowest ($8,932 to $9,896) for districts located in towns.

By design, differences in pupil need and the scale of district operations each account for some variation in the estimated cost of achieving adequacy. To this end, the authors use the adequacy-projected, per-pupil expenditures to create a single Need/Scale Index that can be used to identify the extent to which needs and scale influence the expenditure necessary to deliver an adequate education in each district. Urban districts tend to exhibit relatively higher projected expenditures based on pupil needs and relatively lower projected expenditures associated with the scale of operations, all else being equal. Higher relative costs associated with more rural districts (and to a lesser extent small towns) are consistent with the higher costs—or diseconomies of scale—associated with smaller enrollment.

Authors' Conclusions

AIR estimates that the total cost for providing an adequate education in California is more than 50% above current expenditures

Excluding debt service, public schools in California spent about $45.29 billion in 2004–05. The main results of this study suggest that an additional $24.14 billion to $32.01 billion would have been necessary in that same school year to ensure the opportunity for essentially all students to meet "academically rigorous content standards and performance standards in all major subject areas." These figures represent between 53% and 71% of projected increases in spending. Although these increases seem extraordinary, it is important to recognize that current levels of spending in California—when adjusted for differences in resource costs across the states—are among the lowest in the nation. Even with the increases implied by the results in this study, California would still fall far short of current spending levels in the highest-spending states.

Across this range of added expenditure, the authors find that about 941 of the state's 984 districts would require additional funds to support an adequate educational program for their K–12 students. When preschool is included, this figure rises to 969 districts.

The authors caution that the theoretical designs created by their professional judgment panels should not be taken as a recommendation for mandating local practice. Rather, the models represent a systematic process for estimating the costs of an adequate education across a wide range of circumstances.

Jay G. Chambers is a senior research fellow and a managing director in the Education and Human Development Program at the American Institutes for Research (AIR). He earned his Ph.D. in economics from Stanford University, is a past president of the American Education Finance Association, and is a nationally recognized researcher in the economics of education and school finance.

Jesse D. Levin is a senior research scientist at AIR, where he has been involved in a number of studies addressing the costing-out of educational adequacy and the costs and effectiveness of educational practices and whole-school reforms. He received his Ph.D. in economics from the University of Amsterdam and the Tinbergen Institute, where his research focused on labor economics and the economics of education.

Danielle DeLancey is a research associate in the Education and Human Development Program at AIR, where she is working on a number of education reform initiatives. She earned her M Ed. in education policy from the Harvard Graduate School of Education and has past experience in classroom teaching, curriculum development, and delivering professional development.

This study was completed in December 2006.

Endnotes

1 Each of the two panels consisted of nine educators, including at least one superintendent each from an urban and rural area of the state; three principals with one from each grade level (i.e., elementary, middle school, high school), a special educator (e.g., a district director of special education), an English learner specialist, a school business official, and a classroom teacher. Within these constraints, every effort was made to select participants who represented the size and geographic diversity in California.

2 This method was used only to calculate central administration and maintenance and operation costs, not transportation costs. Transportation costs were entered at their actual 2004–05 levels in both overall district-level expenditure measures.

3 These were based on the locale codes used by the National Center for Education Statistics.

4 This was done using an index developed by Heather Rose in one of the other studies conducted for the *Getting Down to Facts* project.

INSTITUTE FOR RESEARCH ON EDUCATION POLICY & PRACTICE
Informing change & promoting innovation through rigorous & collaborative research

Financing School Facilities in California

By Eric J. Brunner, Department of Economics, Quinnipiac University

STANFORD UNIVERSITY

Getting Down to Facts

A research project designed to provide California's policymakers and other education stakeholders with comprehensive information about the state's school finance and governance systems, and lay the groundwork for a conversation about needed reforms. The project was made possible by grants from the Bill & Melinda Gates Foundation, the William and Flora Hewlett Foundation, the James Irvine Foundation, and the Stuart Foundation.

This summary was prepared by IREPP.

For the full text of the author's research report and the other studies in this project, see: **www.irepp.net**

For background on California's school finance system, see: **www.californiaschoolfinance.org**

Institute for Research on Education Policy & Practice
520 Galvez Mall, Ceras Building
Rm #518
Stanford, CA 94305

650.736.1258
IREPP@suse.stanford.edu

This study provides a comprehensive review of California's system of school facility finance. Along with describing that system, it examines the state's investment over time and provides an analysis of the relationship between the revenues available to school districts and various district characteristics. The study attempts to answer five broad questions related to the way California finances its school facility needs:

1. How has the level of school facility funding changed over time and how does it compare to the level of funding in other states?
2. How is the level of school facility funding distributed across school districts?
3. What are the primary causes of inequities in school facility funding across districts?
4. Is facility funding reaching those districts with the greatest facility needs?
5. How do charter schools obtain funding for school facilities, and what are the special issues related to charter school facility finance?

Summary of Key Findings

California's system for financing school facilities is best described as a partnership between the state and local school districts. The state provides districts with financial support for new school construction and modernization projects through the School Facility Program (SFP). It funds this program through statewide, voter-approved bonds. Local school districts finance their share of school construction and modernization project costs primarily with revenue raised through local general obligation (G.O.) bond elections.

School facility funding has increased dramatically in recent years, surpassing the national average

Between 1960 and 1982, spending per pupil on school facilities in California consistently fell. Although spending gradually rose after 1982, it has until recently lagged behind the rest of the nation and even further behind states with similar enrollment growth trends. In recent years, the funding level changed dramatically.

Study Methods

This report is an historical review of school facility finance in California, including a review of assessments of the system by several organizations. Along with documenting California's current system of school facility finance, the report examines the level and distribution of school facility funding since 1998.

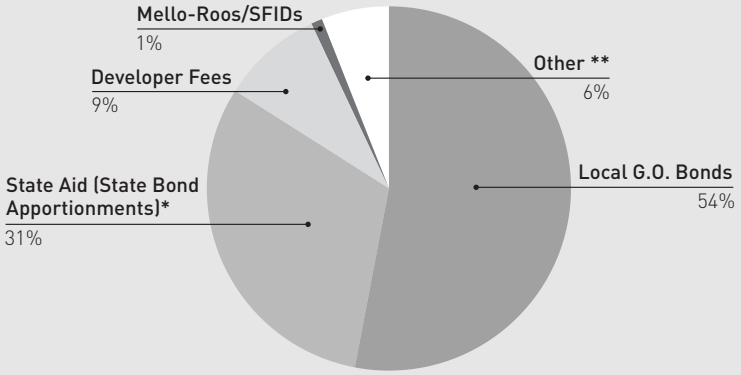
Data sources for this report include:

- California Department of Education (CDE) for data on facility spending over time, developer fee revenues, and other sources of facility revenues.
- U.S. Department of Commerce, Bureau of the Census, for data on facility spending in the United States.
- Office of Public School Construction for data on apportionments of state bond funds.
- EdSource for data on local bond election passage rates and revenues.

The per-pupil revenue calculation:

For the district-level comparisons of revenues after 1998, per-pupil revenue is measured as the sum of all revenue raised between 1998 and June 2006 (measured in constant 2005 dollars) divided by the average district enrollment over the time period.

Figure 1 • Sources of School Facility Funds in California, 1998 to June 2006



Local G.O. Bonds	$38.4 billion
State Aid (State Bond Apportionments)*	$21.9 billion
Developer Fees	$ 6.2 billion
Mello-Roos/SFIDs	$0.7 billion
Other**	$4.0 billion
Total	**$71.2 billion in constant dollars***

The bulk of funds for school facilities come from local general obligation bonds and state bond proceeds. However, the developer fees that districts are allowed to levy on residential and commercial construction also contribute a significant amount. Mello Roos elections and School Facility Improvement Districts (SFIDs), which place levies on just a portion of property in a district, are relevant for only a small portion of districts in the state.

* All dollar amounts were calculated in constant dollars for purposes of the study analysis. In addition, the total for State Aid reflects funds apportioned, not the total amount of voter-approved bonds.

** Includes Certificates of Participation, sale or lease of land/buildings, federal aid, and other small sources of revenue as reported on school district accounting records and prepared by the California Deptartment of Education.

Note: The percentages do not add up to 100% due to rounding.

Figure 2 • Largest Sources of Facility Revenues per Pupil by Type of District, 1998 to June 2006

Revenue Source	Unified Districts	Elementary Districts	High School Districts
Local G. O. Bonds	$4,051	$3,293	$6,951
State Aid	3,496	3,429	4,735
Developer Fees	1,175	1,077	1,408
Number of Districts	331	548	83
Average Enrollment	12,896	2,127	6,273

Since 1998, the level of state and local support for K–12 school facilities in California has been substantial. Through June 2006 voters have approved $28.1 billion in statewide general obligation bonds and an additional $36.0 billion in local general obligation bonds to support school construction and modernization projects throughout the state. As a result, the level of spending per pupil has surpassed the national average and is now comparable to the level found in other states with similar enrollment growth rates. For the years 2000 to 2004, for example, California spent $1,364 per student compared to the average among all other states of $1,192.

Policy decisions since 1998 led to the increased investment

Changes in state policy have had a direct effect on the state's facility finance system and funding levels. The passage of Proposition 1A in 1998 created the School Facilities Program (SFP) to streamline the process districts go through to obtain state funding. Under the SFP, the state provides funding for new construction and modernization in the form of per-pupil grants. In most cases, projects also require local matching funds. The SFP also made numerous reforms designed to streamline the application process, simplify the state facilities program, and create a more transparent and equitable funding mechanism. Then, in 2000, voters passed Proposition 39. This initiative made it possible for school districts to pass local bonds with a 55% approval under specific conditions instead of the two-thirds vote previously required.

Along with increasing the funding available for school facilities, these actions together appear to have changed the proportion of facility funding that comes from specific sources. Prior to 1998, local bond elections provided about a third of total facility funding. That share has grown to more than half. (See Figure 1.)

The level of facilities funding varies widely across school districts

This study found that revenues per pupil for school construction and modernization vary widely among districts. The study examines these differences based on district characteristics, looking first at the variations among elementary, unified, and high school districts.

Figure 2 shows the variation if one divides all revenue raised between 1998 and June 2006 by the average enrollment over the time period in each type of district.

These averages only partially reveal the variation in the passage rates and funds from local general obligation bonds among the three types of school districts.

- For unified districts, 57% (188 out of 331) held at least one successful bond election between 1998 and 2006; and among the districts that passed bonds, the average amount raised per pupil was $7,134.
- For elementary districts, 30% (166 out of 548) held a successful election, and those districts raised an average of $10,872 per pupil.
- For high school districts, 58% (48 out of 83) held a successful election, and those districts raised an average of $12,019 per pupil.

These disparities in the distribution of local general obligation bond revenue also account for a large part of the difference in *total revenue* that exists within each of the district types. For example, in unified school districts, the difference between the 75th and 25th percentiles of facility revenue per pupil (total revenue raised over the period 1998–2005 divided by student enrollment) is more than $10,000. Similar disparities in facility funding exist among elementary and high school districts.

Figure 3 • **Predicted Total Facility Revenues per Pupil**

Variable	Predicted Revenue 25th Percentile	Predicted Revenue 75th Percentile	75th Minus 25th
Need			
Enrollment Growth	$3,144	$3,741	$ 597
Prior Investment	4,218	3,016	-1,202
Ability To Pay			
Assessed Value per Pupil	2,590	4,654	2,064
Income	3,283	3,802	519

Both measures of need and measures of ability to pay appear to be important determinants of the distribution of facility funding.

The first column identifies the variable that is being measured, such as the level of enrollment growth. The second column (25th percentile) represents the lower end of the distribution of school districts for each variable; i.e., districts that are not showing much enrollment growth. The third column (75th percentile) shows the higher end. The fourth column represents the difference in predicted total revenue between the lower and higher ends. For example, with enrollment growth, districts with higher growth tend to have more revenue per pupil for facilities. However, districts that have previously invested in facilities tend to have less revenue.

Data Note: Using coefficient estimates from a model designed to explain total revenue per pupil, this study predicts how various factors affect the distribution of total revenue per pupil. The data show how moving from the 25th percentile of a given variable to the 75th percentile affects the level of total facility funding per pupil while holding all the other variables constant (at their means).

Funding disparities are related to need and, more strongly, to districts' ability to pay

As Figure 3 shows, the study examined the relationship between facility revenues and measures of school district need, wealth, and student ethnicity.

The data show that part of the variation across districts in facility funding is due to differences in need. Districts with higher enrollment growth rates and those that have not invested heavily in school facilities in the recent past tend to have substantially higher revenue per pupil. In particular, state G.O. bond apportionments increase steadily along with enrollment growth, but local G.O. bond revenue is only weakly related to growth.

Ability to pay, whether measured by local income levels or the assessed valuation of property within a school district, appears to be related to facility revenues. In particular, disparities in school facility funding across districts are systematically related to the assessed value of property within districts. Districts with higher assessed value per pupil are able to raise substantially more revenue through local general obligation bond issues and, consequently, tend to have substantially higher total revenue per pupil. The same is true, but to a lesser extent, in regard to districts with high median household incomes.

There appears to be little relationship between facility revenue and the ethnic composition of districts. If anything, districts with higher concentrations of minority students tend to have higher facility revenue per pupil.

Districts with the greatest facility needs are receiving more funds per pupil

The variations in district funding noted above raise the question of whether districts with the most critical facility needs receive higher levels of facility funding. The state has two objective measures of facility need that could be used to address this question: the CDE classification of Critically Overcrowded Schools and schools that operate on a multitrack, year-round schedule (MTYRE).

This issue is of particular concern because a disproportionate number of

nonwhite and low-income students attend these schools. Among schools on a multitrack, year-round schedule or classified as critically overcrowded, the average percentage of students qualifying for free or reduced price lunch is 73%. Among all other schools, that percentage is only 45%.

Critically overcrowded schools have higher facility funding

In 2002 the state Legislature created the Critically Overcrowded Schools (COS) program to help direct state aid toward districts with the greatest facility needs. The program was funded with $4.1 billion of bond revenue from Propositions 47 and 55. To qualify for COS program funding, a school must have doubled the state's recommended density of students per acre.

This study found that districts that contain critically overcrowded schools tend to have higher facility revenue pupil. For example, among the 42 districts that contain critically overcrowded schools, local bond revenue between 1998 and the present averaged $5,722 per pupil and total revenue per pupil averaged $11,323. In other districts, local bond revenue averaged $3,825 and total revenue averaged $9,061. Thus, on average, total revenue per pupil is approximately 25% higher in districts that contain critically overcrowded schools.

It is noteworthy that Los Angeles Unified School District contains nearly 50% of all critically overcrowded schools and has experienced a particularly large increase in facility funding. In that district, total facility funding per pupil is more than twice the statewide average, and local bond revenues are more than four times the average among all other districts.

Multitrack, year-round schools trade facility funds for operating revenue

Multitrack, year-round calendars allow schools to increase their seating capacity by 30% or more by placing students into tracks and then rotating those tracks throughout the year. Thus, at any given point in time, students in one track are on vacation while those in other tracks are attending classes. In 2004–05, 751 schools—serving approximately 804,000 students—were operating on a multitrack, year-round calendar.

Districts that implement a multitrack calendar are eligible for additional operational funding. The Year Round Grant Program provides additional funding based on the percentage of pupils certified in excess of facility capacity. The amount of the grant increases with the percent of students housed in excess of facility capacity. Districts that receive funding under the Year Round Grant Program have their new construction eligibility in the SFP program reduced based on the number of pupils for whom they have received funding. Thus, school districts that participate in the program are voluntarily choosing to reduce their eligibility for new school construction funding.

Funding options for charter schools have improved, but challenges remain

During the 1990s, charter schools faced significant barriers to obtaining adequate school facilities. Under provisions contained in Proposition 39, passed in 2000, it became the legal responsibility of school districts to make every reasonable effort to house charter school students in facilities essentially equivalent to those used to house other district students. In recent years, the government has also established a number of grant and loan programs to help charter schools obtain adequate facilities. Although the facility dilemma facing charter schools has improved, surveys of charter school operators since 2002 indicate that they still struggle to finance their school facilities needs.

Author's Conclusions

The author concludes with a discussion of how this study's findings relate to important recent reports on the school finance system by the Legislative Analyst's Office (LAO), the Little Hoover Commission, and others. He observes that important policy challenges documented in those reports remain to be addressed, even given the recent increase in facility funds. Several reports suggest, for example, that the state develop a more predictable and consistent method of financing school facilities. Others call for further streamlining of state oversight of school facility projects. Consistent with this study's finding that funding for facilities tends to vary systematically with district property wealth, the LAO and others have recommended actions to equalize the ability of school districts to raise general obligation bond revenue. The author also raises the need to expand the definition of Critically Overcrowded Schools, in part to address questions related to schools on a multitrack, year-round schedule.

The state has made more progress in responding to two other facility concerns. It has adapted to changing enrollment trends by putting a stronger emphasis on modernization versus new construction. And it has taken some initial steps toward the creation of a statewide school facility inventory system, including the expected September 2006 adoption of a state standard for good repair.

Eric Brunner, associate professor of economics at Quinnipiac University, holds a Ph.D. from the University of California, Santa Barbara. His research interests include K–12 education finance, intended and unintended consequences of school finance reform, and the political economy of school spending and school choice. This study was completed in October 2006.

INSTITUTE FOR RESEARCH ON EDUCATION POLICY & PRACTICE
Informing change & promoting innovation through rigorous & collaborative research

Considering Special Education Adequacy in California

By the American Institutes for Research (AIR)
Jenifer J. Harr, Tom Parrish, Jay Chambers, Jesse Levin, and Maria Segarra

STANFORD UNIVERSITY

Expenditures continue to rise for students with disabilities, making special education an increasingly important component of education funding. This study explores the issue of special education adequacy through two questions:

1. What analytical techniques exist for estimating the cost of an adequate education for special education students?
2. How might these techniques be applied to estimate costs for special education students in California, and how do those estimates compare to current expenditures?

Background

Across the nation, the percentage of students in special education—and the total expenditure on these students as a percentage of overall K–12 spending—has been steadily increasing over the past 30 years. Today more than 12% of all elementary and secondary public education students have been identified for special education, and special education constitutes 13.9% of overall K–12 public education spending, according to one national estimate. In California, school-age students (ages 6–21) who receive special education services make up 9.5% of public school enrollment. Special education services constitute about 15.5% of K–12 education spending in California, based on 2004–05 school year data.

Under the federal No Child Left Behind Act (NCLB), the vast majority of special education students are to be held to the same academic standards as all students. While about half of special education students spend the majority of their day in regular classes, the nature of their education is very different from that of other students. Federal law entitles special education students to "free and appropriate" educational services as described in an individualized education program (IEP). Furthermore, when the IEP determines that a service is needed by a student in special education, school officials cannot use cost as a rationale for refusing to provide it.

Summary of Key Findings

Conventional techniques for estimating education adequacy shed little light on special education costs

Researchers typically use one of four techniques to estimate the overall cost of an adequate education: econometric, evidence-based, successful schools, and professional judgment. The authors examine how the needs of special education students are addressed across studies using these four approaches and conclude that, for the most part, special education is treated more as an afterthought than a main theme in prior adequacy studies.

All adequacy approaches attempt to identify the resources needed for students to reach a specified level of education outcomes or results. The services necessary for individual students with disabilities to achieve the same standards as their peers, however, may defy incorporation into an adequacy approach in which resources are defined uniformly for an entire group or even subgroups of students. This is true for several reasons. The nature of special education students' entitlement to services is vastly different from that of other students. Further, the percentage of students in special education does not always provide a clear indication of district need, nor do the categories to which students are assigned provide a clear indication of the severity of their disability.

Getting Down to Facts

A research project designed to provide California's policymakers and other education stakeholders with comprehensive information about the state's school finance and governance systems, and lay the groundwork for a conversation about needed reforms. The project was made possible by grants from the Bill & Melinda Gates Foundation, the William and Flora Hewlett Foundation, the James Irvine Foundation, and the Stuart Foundation.

This summary was prepared by IREPP.

For the full text of the author's research report and the other studies in this project, see: **www.irepp.net**

For background on California's school finance system, see: **www.californiaschoolfinance.org**

Institute for Research on Education Policy & Practice
520 Galvez Mall, Ceras Building
Rm #518
Stanford, CA 94305

650.736.1258
IREPP@suse.stanford.edu

Analyses of actual expenditures provide the best estimates of costs, but they are not linked well to educational outcomes

The authors find that all four conventional approaches to adequacy have inherent limitations with regard to special education. They believe that analyses of actual special education expenditures are better for providing a stand-alone estimate of special education adequacy. Actual special education expenditures can also serve as a benchmark for comparing estimates that use the conventional adequacy techniques.

The authors develop four cost estimates using available data on actual expenditures

The authors present four different estimates based on: reported actual special education spending in California; cost estimates from a previous state special education study; and national cost estimates using national spending to approximate adequacy.

Central to these estimates is a conceptual framework for the analysis of special education funding used by the Special Education Expenditure Project (SEEP). This framework is based on three concepts:

- Total special education spending includes amounts used to employ special education teachers, service providers, and administrators; plus spending on transportation and other nonpersonnel items purchased under the auspices of the special education program.
- Total spending to educate a student with a disability encompasses all school resources used to provide a comprehensive education program to the student, including special and general education spending, plus other special needs programs (e.g., Title I of NCLB). Most students with disabilities spend substantial time in general education classrooms, and they benefit from the same administrative and support services as all other students.
- Additional expenditures used to educate a student with a disability are the difference between the total spending to educate a student with a disability and the total spending to educate a general education student (i.e., a student with no disabilities or other special needs).

SEEP provides estimates of total spending and special education spending by disability category. The data show a wide range of costs based on 13 different disability categories and variation within many of those categories. The authors used these cost estimates and data regarding the distribution of disabilities as part of their analysis.

Currently reported expenditures in California exceed cost estimates from other methods, indicating drawbacks in those methods

The authors' estimates for special education spending per special education student in California (in 2004–05 dollars) are:

- $11,600 per student based on districts' actual expenditures as reported in California's SACS data;
- $9,298 per student based on the 2003 AIR Incidence Study data;
- $7,777 per student based on the application of SEEP ratios to estimated spending on a student with no special needs and using current expenditures in California; and
- $9,971 per student based on the application of SEEP ratios to estimated spending on a student with no special needs and using the AIR professional judgment panel study of funding adequacy.

The estimate of current actual spending derived from SACS is markedly higher than the other three

Study Methods

The study includes four estimates of special education spending per special education student. These estimates are weighted by special education enrollment for 823 elementary, unified, and high school districts for which the authors had data.

The first estimate uses expenditure data submitted by districts for 2004–05 using the state's Standardized Account Code Structure (SACS) to compile reported levels of special education spending.

The second estimate applies special education resource allocation patterns by disability developed in a 2003 state study conducted by the American Institutes for Research (AIR): *Study of the Incidence Adjustment in the Special Education Funding Model.*

The other two estimates use ratios of total spending on special education students by disability to spending on students with no special needs, based on the national Special Education Expenditure Project (SEEP). These ratios are applied to two bases intended to represent spending on students with no special needs: current state spending derived from SACS and an estimate of adequate spending provided by the AIR professional judgment study that was also part of the larger *Getting Down to Facts* research effort. The special education component of these ratios approximate special education expenditures if California provided services similar to those found on average across the nation.

estimates, including the one based on a professional judgment estimate of adequate base funding that far exceeds California's current regular education expenditures. The authors present several possible explanations for this. One is that the widespread use of SACS is relatively new, so the SACS data may reflect some inconsistencies in district reporting and assignment of program costs. On the other hand, the detailed accounting used in SACS may be more comprehensive than the other measures used here. Another possibility is that actual special education spending in California may be higher than the estimates based on the SEEP national ratios because the special education identification rate in California, at 9.5%, is considerably lower than the national average at 12.4%. With a smaller percentage of students being identified for special education, it may be that the disabilities of students in California are on average more severe and therefore more costly.

It is also important to note that special education students in California currently perform lower than the outcome levels expected under the federal accountability system. While current spending may be considered adequate for individual students to meet appropriate goals in their IEP, this lower performance suggests that the spending levels may be conservative for meeting federal targets.

Authors' Conclusions

IEPs delineate the services needed to produce specified outcomes for individual special education students. In this sense, these service levels provide a strong basis for considering adequacy. At the same time, they are deficient in two ways. First, the outcome goals for special education students, as defined by IEPs, are generally not as challenging as the outcome standards set by the state and the federal NCLB law for all students. In this regard, the IEP-based estimates almost certainly underestimate costs. Second, the estimates build on a base of general education services that may be inefficient. In this way, they overestimate the cost of achieving a given outcome in a more efficient system. That said, the IEP-based measures are more solid than estimates based on a set proportion of needed spending for general education students for two reasons: the general education cost estimates are likely to vary depending on student characteristics and the local context; and the general education cost estimates are based on weaker data than are available through an IEP and thus are not measured precisely.

This report was prepared by the American Institutes for Research (AIR). Lead author Jenifer Harr is a senior research scientist at AIR and is the associate director of the Center for Special Education Finance/Special Education Expenditure Project (CSEF/SEEP). This study was completed in December 2006.

INSTITUTE FOR RESEARCH ON EDUCATION POLICY & PRACTICE
Informing change & promoting innovation through rigorous & collaborative research

Curbing or Facilitating Inequality? Law, Collective Bargaining, and Teacher Assignment Among Schools in California

By William Koski, Professor of Law, Stanford Law School, and Eileen L. Horng, Research Associate, Institute for Research on Education Policy and Practice, Stanford University

STANFORD UNIVERSITY

Getting Down to Facts

A research project designed to provide California's policymakers and other education stakeholders with comprehensive information about the state's school finance and governance systems, and lay the groundwork for a conversation about needed reforms. The project was made possible by grants from the Bill & Melinda Gates Foundation, the William and Flora Hewlett Foundation, the James Irvine Foundation, and the Stuart Foundation.

This summary was prepared by IREPP.

For the full text of the author's research report and the other studies in this project, see: **www.irepp.net**

For background on California's school finance system, see: **www.californiaschoolfinance.org**

Institute for Research on Education Policy & Practice
520 Galvez Mall, Ceras Building
Rm #518
Stanford, CA 94305

650.736.1258
IREPP@suse.stanford.edu

This study focuses on the legal, policy, and contractual structures in California that are designed to place highly qualified teachers in low-income, high-minority schools as well as those that may constrain efforts to get good teachers into more difficult teaching assignments. Prior studies document that teachers in California schools with high percentages of low-income, minority, and low-performing students tend to be less experienced and more likely to lack credentials than teachers in other schools. This study explores whether this teacher-qualifications gap among California schools exists despite or because of various legal and policy structures. Specifically, it addresses the following questions:

1. Do state laws curb or facilitate the teacher-quality gap in California?
2. Is there a relationship between highly prescriptive transfer rules in bargaining agreements and the average qualifications of a district's teachers?
3. Do districts with relatively prescriptive transfer and leave provisions have larger teacher-qualification gaps among schools?
4. What do district administrators report about the application of these contractual provisions in their districts?

Summary of Key Findings

California state laws do little to address teacher-quality gaps among schools, ceding responsibility to local district officials

The California Legislature has the authority to establish laws and regulations that control teacher hiring and assignment. The authors find, however, that current legislative efforts to close teacher-quality gaps among schools are modest. The state has effectively ceded responsibility to local districts to address this issue with their teachers' unions through collective bargaining agreements.

The Legislature, however, still exerts some influence over hiring, assignment, and teacher retention. Examples of its efforts include:

- Recent legislation (2006) that gives principals in low-performing schools greater authority to fill vacant positions and limits how long current district teachers can claim preference for those vacancies;

Study Methods

The authors review the available literature on teacher preferences and assignment provisions and examine California laws and regulations that affect teacher hiring and assignment.

The authors also analyze 488 collective bargaining agreements out of the 565 California districts with more than three schools, coding them based on how strongly their transfer and leave provisions determine hiring and assignment decisions. They apply a regression analysis, hierarchical linear modeling, and other analytic techniques to explore the relationship between these provisions and various school district characteristics, including teacher-qualification measures. To examine the relationship between teacher characteristics at the school level and collective bargaining agreements (CBAs), which are negotiated at the district level, the authors use hierarchical linear modeling techniques.

Finally, to further illuminate their findings, the authors conducted 19 semistructured interviews with human resources directors from a stratified sample of California school districts.

- Modest incentives to encourage new teachers to enter the profession and/or teach in challenging assignments (e.g., the Assumption Program of Loans for Education);
- Grants for teacher induction programs, such as the Beginning Teacher Support and Assistance program (BTSA); and
- Targeted salary bonuses for teachers with certain advanced training to teach in hard-to-staff schools (the National Board for Professional Teachers Standards Certification Incentives Program).

In recent years, the state eliminated funding for several other programs created in the late 1990s that sought to place teachers in difficult assignments.

Prior studies conclude that teacher-quality gaps among schools are associated with, or exacerbated by, prescriptive teacher assignment rules

Collective bargaining agreements (CBAs) contain rules for teacher hiring and transfer, as well as for the reassigning of teachers who are "surplussed" from current teaching assignments. These CBAs frequently grant preference to teachers with seniority when schools have vacancies or are forced to reduce staff. A review of the relevant literature suggests that such seniority preference rules contribute to teacher-experience and credential inequalities among schools as teachers exercise their seniority rights to transfer out of high-minority, high-poverty schools. Some researchers find that contractual requirements for districts to first post open teaching positions internally hurt certain high-minority urban districts' ability to compete for high-quality teachers. By the time those positions are opened to outsiders, the most experienced or highly credentialed teachers are often hired by other districts. This set of problems would presumably be most apparent in larger districts, which research indicates have the most prescriptive teacher leave and transfer provisions.

Contrary to prior research and conventional wisdom, districts with strong transfer provisions tend to have larger percentages of credentialed teachers

This study finds that school districts with more determinative transfer and leave provisions tend to have larger percentages of credentialed teachers. These provisions, which allow more senior teachers to transfer to their preferred schools, might help districts recruit and retain higher-quality teachers. It is unclear, however, whether the stronger seniority provisions act to attract and retain teachers, or whether there are other attractive contractual provisions or district-level factors. Moreover, the authors note that the relationship may go the other way. Strong seniority preference provisions may be the result of more qualified teachers and stronger unions. The finding that districts with more determinative transfer and leave provisions have greater percentages of credentialed teachers persists even when the authors controlled for a wide range of other district characteristics.

Strong district transfer and leave provisions have no systematic effect on teacher-quality gaps among schools

Consistent with prior research, the authors find that schools with larger percentages of minority students, with more students, with enrollment growth, and with smaller average class sizes all have fewer certified and experienced teachers. They do not, however, find convincing evidence that this problem is greater in districts with strong transfer and leave provisions. In other words, such strong provisions have no independent effect on the quality of teachers in schools within districts. There is also no compelling evidence that the transfer and leave provisions have an indirect effect on teacher distribution among schools by either strengthening or weakening the observed relationship between teacher quality and school characteristics (percentage of minority students, average class size, student enrollment, and school growth).

District administrators report actions that circumvent some teacher transfer rules

While cautioning against overgeneralization, the authors highlight a striking pattern in their interviews with 19 school district officials: all administrators report that they comply with the letter of CBA rules, but effective administrators are seldom hindered in teacher hiring and assignment practices by strong CBA language. Their reasons include:

- Negotiating for and exercising clauses in CBAs that let them make hiring and assignment decisions in the districts' and students' best interests regardless of seniority preferences;
- Developing strong working relationships with union leaders that let them mutually suspend or work around apparently strong contract language in the best interests of students; and
- Employing strategies to circumvent CBAs, such as "hiding" open positions until after the internal post-and-bid process is completed or refusing to select an in-district candidate and re-posting the position after the internal processes are completed.

In some instances, administrators and unions have developed policies to encourage the best candidates to teach in hard-to-staff schools. These

policies include hiring staff early, giving low-performing schools preference for those early hires, and requiring teachers with special training to remain in low-performing schools regardless of seniority.

Authors' Conclusions

Past research shows that teachers prefer to teach in schools with better working conditions and with lower percentages of low-income, minority, and low-performing children. Consistent with prior research, this study finds that schools with higher percentages of minority students, schools that are growing, and larger schools all have lower percentages of credentialed and experienced teachers. Contrary to certain previous research and conventional wisdom, however, this study finds no persuasive and systematic evidence that the seniority preference rules in collective bargaining agreements independently affect the distribution of teachers among schools or exacerbate the negative relationship between higher minority schools and teacher quality. While the qualitative analysis confirms that strict teacher-assignment provisions affect some districts' ability to hire the best-qualified teachers and result in inequalities among schools, this study suggests that the experience of those districts may be the exception. The authors' findings also imply a greater role for the state in creating incentives for teachers to work in difficult-to-staff schools. They indicate that merely changing the language of teacher-assignment provisions in collective bargaining agreements will do little to close the teacher-quality gap.

William S. Koski is a professor of law at Stanford Law School where he directs the Youth and Education Law Project. A graduate of the University of Michigan Law School, he received a Ph.D. in educational policy analysis at the Stanford University School of Education. He focuses on issues of educational equity and funding, the politics of judicial decision-making, and post-secondary remedial education.

Eileen Lai Horng received her Ph.D. at the University of California, Los Angeles' Graduate School of Education and Information Studies in the Division of Urban Schooling. Her research and work experiences at UCLA focused on educational policies to alleviate disparities in the U.S. educational system, particularly students' access to qualified teachers.

This study was completed in December 2006.

INSTITUTE FOR RESEARCH ON EDUCATION POLICY & PRACTICE
Informing change & promoting innovation through rigorous & collaborative research

Teacher Compensation and Local Labor Market Conditions in California: Implications for School Funding

By Heather Rose and Ria Sengupta, Public Policy Institute of California

STANFORD UNIVERSITY

Spending on teachers accounts for slightly more than half of total education spending in California and is an important driving factor in school budgets. This paper addresses the following questions:

1. How does teacher compensation vary across California school districts and how much of the variation is driven by labor market factors beyond districts' control?
2. What are the important variables in a formula designed to equalize the labor purchasing power of districts?
3. How might equalizing the labor purchasing power of California districts further the state's education goals?

Summary of Key Findings

Teacher compensation and experience levels vary substantially across California school districts

District teacher salaries are determined by two key components: the salary schedule adopted by the district and the experience level of teachers within the district.

Teacher salaries and benefits vary substantially across California school districts. In 2003–04, districts in Santa Clara and Orange counties offered the highest compensation, on average surpassing $70,000 for a teacher with 10 years of experience and 60 units of education beyond a bachelor's degree (i.e., a mid-career teacher). At the other extreme, compensation packages in Yolo County and the North Coast counties fell short of $55,000 per year for teachers at the same position in the salary schedule.

The data show that districts across California also differ in the experience levels of their teachers. In 2003–04 the median district had an average teacher experience level of about 10.6 years. However, in one quarter of districts, teacher experience averaged less than 8.8 years; and in another quarter of districts, average experience exceeded 12.2 years.

Study Methods

For this paper, teacher compensation refers to the sum of salaries and the districts' contribution toward benefits.

The authors examine regional cost differences by dividing the state into 30 labor market regions based on the Metropolitan Statistical Areas (MSAs) designated by the U.S. Bureau of the Census.

The authors study the effect of nonteacher wages on teacher compensation for teachers with differing levels of education and experience. The measures of nonteacher wages that they use are the wages of occupations that require an education level similar to teachers. They account for differences in demographic and other labor market variables across districts in their analyses.

The authors also analyze the effect of a district's enrollment growth and the age level of workers in the region on teacher-experience levels, and thus on wages. Again, they take differences in demographic and labor market variables into consideration. Based on their analysis, the authors construct a school funding formula that equalizes the ability of districts to pay teachers.

The study draws on data from the California Department of Education's (CDE) Standardized Account Code Structure (SACS) as well as salary schedule data reported by districts to the CDE (Form J-90). Nonteacher regional wages are calculated from the 2000 PUMS U.S. Census data. (PUMS stands for Public Use Microdata Samples.)

Getting Down to Facts

A research project designed to provide California's policymakers and other education stakeholders with comprehensive information about the state's school finance and governance systems, and lay the groundwork for a conversation about needed reforms. The project was made possible by grants from the Bill & Melinda Gates Foundation, the William and Flora Hewlett Foundation, the James Irvine Foundation, and the Stuart Foundation.

This summary was prepared by IREPP.

For the full text of the author's research report and the other studies in this project, see: **www.irepp.net**

For background on California's school finance system, see: **www.californiaschoolfinance.org**

Institute for Research on Education Policy & Practice
520 Galvez Mall, Ceras Building
Rm #518
Stanford, CA 94305

650.736.1258
IREPP@suse.stanford.edu

Local labor market conditions affect compensation, particularly for experienced teachers

Salary schedules reflect local labor market conditions because school districts must compete with other employers to attract employees. In theory, districts in regions with higher nonteacher wages must offer teachers relatively higher salaries. The data bear this out, but the relationship is not perfect. For mid-career teachers, the authors find that districts facing a nonteacher wage 10% above the state average tend to offer mid-career teachers 6% above the state average mid-career teacher compensation. The authors also find that these differences are not uniform across teacher-experience levels. Teacher compensation at years 10 and 20 varied substantially, while beginning compensation varied less. This may stem from state incentives for districts to offer a minimum teacher salary of $34,000.

Average experience levels vary across districts and depend on regional demographic factors

The average experience level in a district affects total spending on teachers because experience determines where most teachers place on the districts' salary schedule. This study shows that a district's average teacher experience level is affected by the general age level of workers in the region. Some regions are more attractive to young people, who move to other regions as they grow older. Enrollment growth also affects the average experience level, with growing districts hiring more new, inexperienced teachers and therefore tending to have lower average teachers' salaries.

In addition to these factors, working-condition differences, such as those related to the portion of students in poverty, affect the experience level of teachers in the district. Districts with more student poverty tend to have teachers with lower experience levels.

Districts have limited ability to adjust to local labor market conditions

Overall, districts cannot fully adjust to external labor market conditions because their revenue is constrained by the state. Districts in high-wage regions have some ability to cut back on nonteacher expenses, but ultimately they need to reduce teacher compensation or the number of teachers to balance their budgets. This analysis indicates that as external wage pressures grow, districts cut back on the number of teachers they hire and reduce the number of other certificated staff per student (e.g., counselors and nurses).

A formula to equalize the labor purchasing power of districts could be based on a comparable wage index, adjusted for enrollment growth

California's school funding system could be altered to equalize labor purchasing power across school districts. To do this, California could construct a baseline, statewide teacher-salary schedule and then use a comparable wage index (e.g., regional nonteacher wages) to adjust that baseline schedule appropriately for each district. Based on these regionally adjusted salary schedules, each district would receive sufficient revenue to hire enough teachers to reach some statewide target teacher-pupil ratio. Ultimately, districts determine their own salary schedule and their own mix of resources, but the formula would enable them to afford a standard resource set.

Enrollment trends might be a factor in a new finance formula, given the financial opportunities presented by district enrollment growth and the reciprocal obstacles posed by declining enrollment. Such a formula could also account for the age composition of districts' labor pools. To equalize purchasing power, shrinking districts would receive additional revenue as would districts with an older population.

Several other states already use regional cost adjustments to determine district funding levels. These adjustment strategies vary, reflecting the particular combination of teacher compensation and school finance policies in each state.

Authors' Conclusions

The formula outlined in this paper is only a starting point for considering how the state finance system could help local districts adjust to regional labor costs. It does not, for example, include funding adjustments for resource needs based on student characteristics. Such adjustments might be needed for districts with high shares of poor students, English learners, or special education students. Those districts might need to hire more teachers—or teachers with specialized skills—to help students meet the state's academic performance standards.

The proposed formula provides a straightforward computation for equalizing districts' purchasing power, enabling them to afford equal levels of tangible resources. But it does not address the issue of student outcomes. Further, the authors' analysis suggests that changing the resource mix in school districts based on labor costs alone may not substantially affect test scores. However, the funding-formula adjustments in this paper could be combined with a formula designed to increase academic performance based on student characteristics. Other studies in this project, which look at the relationship between resources and student achievement, explore this hybrid approach.

Heather Rose is a research fellow at the Public Policy Institute of California (PPIC). She has coauthored several PPIC reports on school finance, including The Concept of Adequacy and School Finance; High Expectations, Modest Means: The Challenge Facing California's Public Schools; School Budgets and Student Achievement in California: The Principal's Perspective; *and* School Resources and Academic Standards in California: Lessons from the Schoolhouse.

Ria Sengupta is a research associate at PPIC and has coauthored California's Community College Students, *an issue of PPIC's* California Counts *series.*

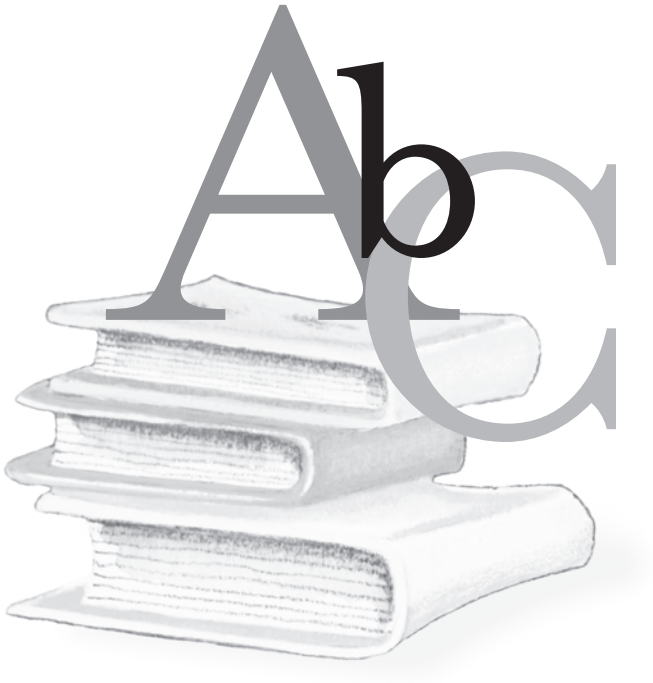
This study was completed in December 2006.

Selected Readings on California School Finance

Chapter 8
Resources

A Glossary of School Finance Terms

AUGUST 2004



EdSource®
Clarifying Complex Education Issues™

School Finance Acronyms

AB: Assembly Bill

ADA: Average Daily Attendance

API: Academic Performance Index

AYP: Adequate Yearly Progress

CalPERS: California Public Employees' Retirement System

CalSTRS: California State Teachers' Retirement System

CalWORKs: California Work Opportunity and Responsibility to Kids

CBEDS: California Basic Educational Data System

CDE: California Department of Education

COE: County Office of Education

COLA: Cost-of-living Adjustment

CPI: Consumer Price Index

CSR: Class Size Reduction

EIA: Economic Impact Aid

EL: English Learner

ESEA: Elementary and Secondary Education Act

FCMAT: Fiscal Crisis and Management Assistance Team

F/RPM: Free/Reduced-price Meals

GATE: Gifted and Talented Education

G.O. Bond: General Obligation Bond

HPSGP: High Priority Schools Grant Program

IDEA: Individuals with Disabilities Education Act

IEP: Individualized Education Program

II/USP: Immediate Intervention/Underperforming Schools Program

IMFRP: Instructional Materials Funding Realignment Program

JPA: Joint Powers Agreement

K–12: Kindergarten through 12th Grade

K–14: Kindergarten through Community College

K–16: Kindergarten through Undergraduate University

LEA: Local Education Agency

LEP: Limited English Proficient

MPSE: Master Plan for Special Education

MTYRE: Multitrack, Year-round Education

NCLB: No Child Left Behind Act

OPSC: Office of Public School Construction

OTL: Opportunity To Learn

PERB: Public Employment Relations Board

PERS: Public Employees' Retirement System

PL: Public Law (federal)

PSAA: Public Schools Accountability Act

ROC/ROP: Regional Occupational Center/Program

SAB: State Allocation Board

SACS: Standardized Account Code Structure

SARC: School Accountability Report Card

SB: Senate Bill

SBE: State Board of Education

SEA: State Education Agency

SELPA: Special Education Local Plan Area

SFID: School Facility Improvement District

SIP: School Improvement Program

STAR: Standardized Testing and Reporting Program

STRS: State Teachers' Retirement System

© Copyright 2004 by EdSource, Inc.

For a glossary with education terms beyond school finance, go to ***www.edsource.org*** *and click on the "glossary" button.*

Academic Performance Index (API) A number summarizing the performance of a group of students, a school, or a district on the state's standardized tests. A school's number (or API score) is used to rank it among schools of the same type (elementary, middle, high, or small) and among the 100 schools of the same type that are most similar in terms of students served, teacher qualifications, and other factors. (See Standardized Testing and Reporting Program.)

Account Code A number that classifies sources of revenues or purposes of expenditures in either a school district budget or the reports districts submit to the California Department of Education. The account code classifies expenditures according to the types of items purchased or services obtained, and revenues by the general source and type of revenue.

Adequacy An approach to school funding that begins with the idea that the amount of funding schools receive should be based on some estimate of the cost of achieving the state's educational goals. It tries to answer two questions: How much money would be enough to achieve those goals and where would it best be spent?

Adequate Yearly Progress (AYP) A collection of performance measures that a state, its school districts, and subpopulations of students within its schools are supposed to meet if the state receives Title I, Part A federal funding. In California, the measures include: (1) specified percentages of students scoring "proficient" or "advanced" on California Standards Tests in English language arts and math; (2) participation of at least 95% of students on those tests; (3) specified Academic Performance Index scores or gains; and (4) for high schools, a specified graduation rate or improvement in the rate. (See No Child Left Behind Act and Title I.)

Adult Education Classes offered by school districts, community colleges, and other public and private organizations for residents 18 years or older who are not enrolled in a high school. State law requires that certain courses, including citizenship and English, be provided at no charge, while others may carry a fee. Adult Education revenues and expenditures must be tracked separately from a school district's general fund.

Apportionments Funds that federal or state governments distribute to local education agencies or other governmental units according to certain formulas.

Appropriations Funds set aside or budgeted by the state or local school district boards for a specific time period and specific purpose. The state Legislature and local school boards must vote every year on appropriations.

Assembly Bill (AB) 1200 Legislation passed in 1991 that defined a system of fiscal accountability for school districts and county offices of education to prevent bankruptcy. The law requires districts to do multiyear financial projections; identify sources of funding for substantial cost increases, such as employee raises; and make public the cost implications of such increases before approving employee contracts. County offices review district budgets, and the state reviews countywide school districts.

Assessed Value The value of land, homes, and businesses set by the county assessor for property tax purposes. It is either the appraised value of any newly built or purchased property or, for continuously owned property, the value on March 1, 1975 plus annual increases. These increases, tied to the California Consumer Price Index, may not exceed 2% annually. (See Proposition 13.)

Average Daily Attendance (ADA) The total number of days of student attendance divided by the total number of days in the regular school year. A student attending every day would equal one unit of ADA. ADA is not the same as enrollment. (See Enrollment.) The state uses a school district's ADA to determine its total general-purpose (revenue limit) funding and some other funding.

Basic Aid The minimum general-purpose aid guaranteed by the state's constitution for each school district in California. The amount is $120 per pupil (ADA), with a minimum of $2,400 per district for very small districts. In 2003 lawmakers decided that the funding schools receive from categorical programs could satisfy this guarantee.

Basic Aid School District The historical name for a district in which local property taxes equal or exceed the district's revenue limit. These districts may keep the money from local property taxes and still receive constitutionally guaranteed state basic aid funding.

Benefit Assessment District See Maintenance Assessment District.

Block Grant An allotment of money that is the sum of multiple special-purpose funds combined into one. A block grant tends to have fewer restrictions on how the money is spent than the original, disparate funding streams had; and it often combines funds that have similar purposes.

Bond Measure See General Obligation (G.O.) Bonds.

Bonus/Performance Pay Extra money for school district employees who perform extra duties or are considered exemplary. In some states, performance pay is being offered as an incentive for teachers to improve their students' performance. In California, both employee pay and benefits are determined by collective bargaining, according to state law.

Budget Act A constitutionally established, one-year statute for the state's budget appropriations. It is the only bill allowed to have more than one appropriation. The state Constitution requires that it be passed by a two-thirds vote of each house and sent to the governor by June 15 each year. The governor may reduce or delete, but not increase, individual items.

Building Fund A fund that districts must use only for buildings. The money comes from sources such as bonds and the sale/rental of property.

California Basic Educational Data System (CBEDS) Reports that contain statistics about schools, teachers, and students. CBEDS reports are collected from each school in the fall.

California Work Opportunity and Responsibility to Kids (CalWORKs) A welfare program that gives cash aid and services to eligible needy California families. CalWORKs is a state program that is operated locally by county welfare departments.

CalPERS See Public Employees' Retirement System (PERS).

CalSTRS See State Teachers' Retirement System (STRS).

Capital Outlay Money spent for major physical changes to a school, such as new buildings, renovations, reconstruction, or certain new equipment. These investments in the physical structure of a school are expected to last for a number of years.

Categorical Aid/Categorical Programs Allocations from the state or federal government that generally fall into three categories: specific programs, specific students, and specific characteristics of school districts. All districts receive categorical aid in varying amounts in addition to the funding they receive for their general education program. In most cases, districts have limitations on how they may use these funds.

Certificated/Credentialed Employees Employees who are required by the state to hold some type of teaching credentials, including most administrators and full-time, part-time, substitute, and temporary teachers.

Charter School A public school operated independently under a performance agreement with a school district, a county office of education (COE), or the State Board of Education. Charter schools are funded on a per-pupil basis, freed from most state regulations that apply to school districts and COEs, usually able to hire their own teachers and other staff, and subject to closure if they fail to meet their promises for student outcomes.

Class Size Reduction (CSR) Incentive programs that provide funding to schools with class sizes of no more than 20 students per teacher. CSR was initiated in the 1996–97 school year for kindergarten through third grade. A separate program supports smaller classes for core academic subjects in 9th grade.

Classified Employees School employees who are not required to hold teaching credentials, such as bus drivers, secretaries, custodians, instructional aides, and some management personnel.

Collective Bargaining A process for establishing a contract between a school district and its employee organizations. Senate Bill 160 (1975) defined the manner and scope of negotiations and mandated a state regulatory board. (See Public Employment Relations Board.)

Con App (Consolidated Application) The application districts can use to apply for about 20 state and federal categorical programs. Most, if not all, districts use the "con app" to secure funding from at least some of the programs on the application. These programs tend to be on roughly the same timeline and are relatively straightforward to apply for, such as the federal Title I program and the state School Improvement Program (SIP).

Consolidation The combining of two or more elementary or high school districts with adjoining borders to form a single district. (See Unification and Unionization.)

Consumer Price Index (CPI) A measure of the average change over a short time in the prices paid for a set of consumer goods and services. Salary adjustments and other costs can be linked to the CPI, which is sometimes used as a factor to measure inflation.

Cost-of-living Adjustment (COLA) An increase in funding for schools from the state or federal government to compensate for inflation. In California, the law states that schools should receive a certain COLA based on the Implicit Price Deflator for State and Local Government Purchases of Goods and Services.

County Office of Education (COE) The agency that provides, in general, educational programs for certain students; business, administrative, and curriculum services to school districts; and financial oversight of districts. These services are affected by the size and type of districts within the county, the geographical location and size of the county, and the special needs of students that are not met by the districts. Each of California's 58 counties has an office of education.

Deferred Maintenance Major repairs of buildings and equipment that have been postponed by school districts. Some matching state funds are available to districts that establish a deferred maintenance program to proceed with these repairs.

Deficit Factor The percentage by which an expected allocation of funds to a school district or county office of education is reduced. The state may apply deficit factors to revenue limits and categorical programs when the appropriation is insufficient based on the funding formulas specified by law.

Developer Fees A charge per square foot on residential and commercial construction within a school district that is based on the premise that new construction will lead to additional students. School districts decide whether to levy the fees and at what rate up to the maximum allowed by law. Proceeds are used for building or renovating schools and for portable classrooms.

Direct Services Services—including business, attendance, health, guidance, library, and supervision of instruction (K–8 only)—performed without cost by county offices of education for small districts, which are defined as fewer than 901 (elementary), 301 (high school), and 1,501 (unified) students based on ADA.

Economic Impact Aid (EIA) State categorical funds for districts with concentrations of children who are transient, from low-income families, or need to learn English.

Education Code The body of law that regulates education in California. Additional regulations affecting education are contained in the California Administrative Code, Titles 5 and 8, the Government Code, and general statutes.

Elementary and Secondary Education Act (ESEA) The principal federal law affecting K–12 education. The No Child Left Behind Act (NCLB) is the most recent reauthorization of ESEA. (See No Child Left Behind Act.) Enacted in 1965 as part of the War on Poverty, ESEA supports the education of the country's poorest children. Congress must reauthorize it every six years.

Encroachment The expenditure of a local education agency's general-purpose funds for mandated special-purpose programs in which the cost of providing the programs exceeds the state or federal funding provided.

English Learner (EL) Students whose home language is not English and who qualify for extra help. EL students were formerly known as "limited English proficient" (LEP).

Enrollment A count of the students enrolled in each school and district on a given day in October. The number of pupils enrolled in the school is usually larger than the average daily attendance (ADA) due to factors such as students' moving, dropping out, or staying home because of illness. (See Average Daily Attendance.)

Equalization Aid Funds allocated, on occasion, by the Legislature to address perceived inequalities and raise the funding level of school districts with lower revenue limits toward the statewide average based on size and type of district.

Expenditures Per Pupil The amount of money spent on education by a school district or the state divided by the number of students educated. For most purposes in California, the number of students is determined by average daily attendance (ADA). (See Revenues Per Pupil.)

Fiscal Crisis and Management Assistance Team (FCMAT) A state-funded agency that provides fiscal advice, management assistance, training, and other related school business services, with a particular emphasis on districts facing fiscal insolvency. FCMAT operates from the office of the Kern County Superintendent of Schools under contract with the California Department of Education and the governor's office.

Free/Reduced-price Meals (F/RPM) A federal program to provide food—typically lunch and/or breakfast—for students from low-income families. The number of students participating in the National School Lunch Program is often used as a way to measure the poverty level of a school or district population. The number of children in this program can affect schools' or districts' eligibility for grants or other funding aimed at helping lower-income families. Almost half of California's public school children are eligible for free/reduced-price meals.

Gann Limit A limit on the amount of tax money that state and local governments, including school districts, can legally spend. California voters approved the late Paul Gann's Proposition 4 in November 1979. The implementing legislation, Senate Bill 1342, minimized the proposition's impact on K–12 education.

General Fund The primary, legally-defined fund used by the state and school districts to differentiate general revenues and expenditures from those placed in other funds for specific uses.

General Obligation Bond (G.O. Bond) A form of borrowing commonly used to fund school facilities. Local G.O. bonds, financed through an increase in local property taxes, can be used for renovating, reconstructing, and building new facilities and for certain new equipment. School districts can seek either two-thirds or 55% voter approval, the latter with additional accountability requirements. A simple majority of state voters can approve a state G.O. bond, which is repaid by state funds and has no impact on property tax rates. Although both state and local bonds are G.O. bonds, people often use the term "G.O. bond" to refer only to local bonds for school facilities.

General-purpose Funding Money granted to school districts for general purposes, with the largest portion of it based on a per-pupil revenue limit amount. Districts can decide how the money is spent, within the constraints of certain laws and contracts with employees. (See Revenue Limit.)

Gifted and Talented Education (GATE) A program that provides supplemental, differentiated, challenging curriculum and instruction to California public school students who are deemed by districts to be intellectually gifted or especially talented in leadership or visual and performing arts.

Healthy Start A state grant program in which schools work with community organizations to provide children and families with access to health and human services, often at schools. The state approved the last round of new grants in 2002.

High Priority Schools Grant Program (HPSGP) A program to support schools in the lower half of the state rankings (deciles 1 through 5) based on the Academic Performance Index (API). However, the initial emphasis is on Decile 1 schools, which are at the bottom of the state's ranking system. (See Academic Performance Index.)

Immediate Intervention/Underperforming Schools Program (II/USP) A component of California's Public Schools Accountability Act (PSAA) designed to provide assistance and intervention for schools identified as underperforming. Three cohorts of 430 schools were chosen—one each in 1999, 2000, and 2001—for the three-to-four year program. In 2002 lawmakers funded instead a similar program. (See High Priority Schools Grant Program.)

Impact Aid See PL 81-874.

Implicit Price Deflator A measure of inflation used to compare expenditures over a period of time. The state uses the Implicit Price Deflator for State and Local Government Purchases of Goods and Services to calculate increases to revenue limits.

Individualized Education Program (IEP) A plan developed for a specific student that outlines what that student needs to learn in a specified period of time and what special services need to be provided based on the student's ability or limitations. Special Education students have IEPs that may also exempt them from tests or allow accommodations, such as an exam in Braille.

Individuals with Disabilities Education Act (IDEA) A reauthorization of the federal Education For All Handicapped Children Act of 1975, which guarantees children with exceptional needs a free and appropriate public education and requires that each child's education be determined on an individual basis and designed to meet his or her unique needs in the least restrictive environment. It also establishes procedural rights for parents and children. (See Special Education.)

Inflation Factor See Cost-of-living Adjustment.

Instructional Materials Funding Realignment Program (IMFRP) A program created by the state in 2002–03 to pay for textbooks and related materials, including in some cases professional development and assessment materials. The IMFRP requires districts to provide standards-based materials for each pupil by the start of the school year that begins within two years of the adoption of materials by the state for K–8 and by the district for 9–12.

J-90 An optional salary information report that most districts and county offices of education submit to the California Department of Education. The main focus is teachers' salaries, but the J-90 also includes other certificated staff.

J-200, J-380 Financial (J-200) and program cost accounting (J-380) reports that school districts and county offices of education submit to the California Department of Education. When all districts converted to SACS (see Standardized Account Code Structure) in 2003–04, CDE discontinued the J-200 and J-380 software.

Joint Powers Agreement (JPA) An agreement among local education agencies (LEAs) (and/or sometimes the California Department of Education) to share services or responsibilities. A joint powers board made up of representatives of the LEAs governs the JPA.

Joint School Districts School districts with boundaries that cross county lines.

Limited English Proficient (LEP) See English Learner.

Local Education Agency (LEA) A public board of education or other public authority within a state that maintains administrative control of public elementary or secondary schools in a city, county, township, school district, or other political subdivision of a state. School districts and county offices of education are both LEAs. Sometimes charter schools function as LEAs.

Local Miscellaneous Revenues School funding from locally generated sources, such as community contributions, interest income, developer fees, and revenues from local parcel tax elections.

Lottery Gambling games approved by California voters in November 1984. The minimum of 34% of lottery revenues distributed to public schools, colleges, and universities must be used for educational purposes. Half of any increase of lottery income to school districts and community colleges—as compared to funding in the 1998–99 school year—must be used only for instructional materials, such as textbooks. Lottery income comprises less than 2% of K–12 education funding annually.

Maintenance Assessment District An area in which fees charged to property owners are used to provide a service of benefit to all fee payers, such as the maintenance of public parks and recreation areas. Districts must hold an election before fees are levied. It is sometimes called a Benefit Assessment District.

Mandated Costs School district expenditures that are required because of federal or state law, court decisions, administrative regulations, or initiative measures. Since the passage of Proposition 4 in 1979 (the Gann Limit), the California Constitution has required the repayment of mandated costs to school districts.

Master Plan for K–16 Education A long-term, strategic plan for a single, seamless system of education from prekindergarten through postsecondary education that will provide better schools and higher levels of student achievement in every school, college, and university, and will prepare students to enter the workforce. The main objectives of the plan are to focus the education system on student success and guide education policy and budget decisions over the next 20 years. This master plan has been in place since August 2002. For the most part, legislation to implement the plan has not been enacted.

Master Plan for Special Education (MPSE) California categorical program for the education of all children with disabilities, enacted in 1980 and modified frequently since then. (See Special Education and Individuals with Disabilities Education Act.)

Mello-Roos Community Facility District A portion of a school district, often a new housing development, that can be taxed if two-thirds of property owners vote to approve it. Under Mello-Roos, property owners pay a special tax that is not based directly on the assessed value of the property.

Migrant Education Special federal funds for districts with students who are children of migrant workers.

Multitrack, Year-round Education (MTYRE) Schools with classes that take place throughout the calendar year. Individual students attend school for nine months, but on staggered schedules. Districts typically choose MTYRE to fully utilize school facilities. (A few districts have single-track, year-round education—in which students have shorter vacations spread throughout the year—for educational reasons.)

National School Lunch Program See Free/Reduced-price Meals.

Necessary Small Schools Schools that need to have small populations, usually because they are in sparsely populated areas or serve special populations (such as Juvenile Court schools). These schools receive extra funding because they cannot realize economies of scale.

No Child Left Behind Act (NCLB) The 2002 reauthorization of the Elementary and Secondary Education Act (ESEA). NCLB's provisions represent a significant change in the federal government's influence in public schools and districts throughout the United States, particularly in terms of assessment, accountability, and teacher quality. It increases the federal focus on the achievement of disadvantaged pupils, including English learners and students who live in poverty, provides funding for innovative programs, and supports the right of parents to transfer their children to a different school if their school is low-performing or unsafe. (See Titles I–X.)

Office of Public School Construction (OPSC) The agency that implements and administers the School Facility Program and other programs of the State Allocation Board (SAB). OPSC also verifies

that all school districts applying for state funding to modernize or build new facilities meet specific criteria based on the type of funding requested.

Opportunity To Learn (OTL) Standards that measure the extent to which key education resources—such as experienced teachers, adequate materials, rigorous courses, and safe, clean, uncrowded facilities—are provided at a school site.

Parcel Tax An assessment on each parcel of property—not based on assessed value—that must be approved by two-thirds of the voters in a school district. When proposing parcel tax elections, districts indicate how the money will be used. Money from parcel taxes is generally used for educational programs, not for school construction or renovation, which is normally financed through a general obligation (G.O.) bond measure.

Per Capita Personal Income Total personal income from all sources prior to taxation divided by the number of residents in, for example, a state.

PL 81-874 (Public Law 81-874) The federal program that provides funds to districts with children whose families live or work on federal property, such as military bases. (See Title VIII.)

PL 94-142 (Public Law 94-142) A federal law that mandates a "free and appropriate" education for all children with disabilities. (Also see Individuals with Disabilities Education Act.)

Property Tax A tax on local residential and commercial property that is part of a school district's income based on a formula set by the Legislature and signed by the governor in 1978. These taxes, which vary by district, are part of the district's revenue limit income. (See Revenue Limit).

Proposition 13 An amendment to the California Constitution passed by voter initiative in June 1978 that limits property taxes to no more than 1% of full assessed value (plus any additional rates approved by local voters, such as general obligation bonds). Annual increases in assessed value are capped at 2% or the percentage growth in the state's Consumer Price Index (CPI), whichever is less. For individual properties, the assessed value is also raised when new construction or the sale of property occurs (with a few exceptions). Proposition 13 and implementing legislation caused a shift in support for schools from local property taxes to state general funds. Local voters can levy a uniform dollar tax per parcel of land, but they cannot increase property taxes based on value except by issuing general obligation (G.O.) bonds for school construction or renovation.

Proposition 39 An amendment to the California Constitution passed by voter initiative in November 2000. It added the option of a lower voter-approval threshold (55% vs. two-thirds) for local school district general obligation (G.O.) bonds. If districts choose to seek 55% instead of two-thirds approval, they have added requirements involving financial and performance accountability.

Proposition 49 An amendment to the California Constitution passed by voter initiative in November 2002. It modified and expanded the existing state after-school programs. Beginning in 2004–05, any funding increases to the After School Education and Safety Program must come from outside of Proposition 98 funds. Without voter approval, lawmakers can only reduce funding to the program if they also reduce Proposition 98 funds by the same percentage.

Propositions 98 and 111 Voter-approved initiatives that amended the California Constitution in 1988 and 1990 to guarantee a minimum amount of funding from property and state taxes for K–14 (kindergarten through community college) education each year. The propositions included formulas for calculating the guarantee under different economic conditions. Proposition 98 also mandated School Accountability Report Cards (SARCs). (See School Accountability Report Card.)

Public Employees' Retirement System (PERS) A retirement fund required by state law. Classified employees and their employer (such as school districts and county offices of education) contribute.

Public Employment Relations Board (PERB) A five-person board appointed by the governor that regulates collective bargaining between public employees (including school district employees) and employee organizations.

Public Schools Accountability Act (PSAA) A law that outlines a comprehensive process for measuring schools' academic performance and ranking schools based on that performance. When schools fall short of expectations, the state may intervene—first with assistance and later with sanctions. Successful schools are expected to be recognized and rewarded. California lawmakers approved the PSAA in April 1999.

Pupil Weighting System of distributing funds—through the state to districts, county offices of education, or schools—that provides more or less money based upon the educational or social conditions of students in a school or district.

Regional Occupational Center/Program (ROC/ROP) A center or program established by a school, district, group of districts, or county office of education that provides training for entry-level jobs, job-related counseling, and upgrading of skills for youths ages 16 to 18.

Reserves Funds set aside in a school district budget to provide for future expenditures, to offset future losses, for working capital, or for other purposes.

Revenue Limit The amount of general-purpose money districts receive per pupil (ADA) from a combination of state funds and local property taxes. Categorical aid for specific programs and students is in addition to revenue limit income. The Legislature came up with the revenue limit concept to create a more equal distribution of monies for schools. Originally, revenue limits were calculated for each district based on historical spending patterns and varied considerably.

Revenues Per Pupil The total amount of revenues from all sources allocated to K–12 education, divided by the number of students as determined, most often, by average daily attendance (ADA). The formula for revenues per pupil is based on the amount budgeted by the state rather than on what is actually spent by districts and the state to provide services. (See Expenditures Per Pupil.)

School Accountability Report Card (SARC) An annual report on specified aspects of a school's operation, which is required as part of Proposition 98. Other state legislation and the federal No Child Left Behind Act (NCLB) also require SARCs. (See Propositions 98 and 111.)

School Board A locally elected group, usually between three and seven members, who set fiscal, personnel, instructional, and student-related policies. A school district governing board also provides direction for the district, hires and fires the district superintendent, and approves the budget and contracts with employee unions.

School Facility Improvement District (SFID) A portion of a school district that is taxed through a general obligation (G.O.) bond based on the value of the property and approved by the voters in that portion of the district being taxed. Originally, SFIDs required two-thirds voter approval. But in July 2001, the Legislature added the option of a 55% approval threshold with the additional accountability provisions of Proposition 39. Typically, SFIDs involve new housing developments that create additional facility needs for the school district.

School Foundation A tax-exempt organization—also referred to as an education foundation—established to raise funds and receive gifts and grants in support of a school district or individual school.

School Improvement Program (SIP) A plan for an improved education program developed by a school site council composed of staff, parents, and students (high schools only). SIP is one of the few categorical programs that provide discretionary money directly to schools. Typical uses are for instructional aides, classroom materials, technology, and staff development.

School Site Council Parents, students (high schools only), teachers, and other staff selected by their peers to prepare a school improvement plan and to assist in seeing that the planned activities are carried out and evaluated. Such a council is required when a school receives funding for a School Improvement Program (SIP) or through Title I.

Scope of Bargaining The range of subjects negotiated between school districts and employee organizations during collective bargaining. In California, scope includes matters relating to wages, hours, and working conditions. The Public Employment Relations Board (PERB) is responsible for interpreting disputes about scope.

Section 504 A section of the federal Rehabilitation Act of 1973 that protects "handicapped" individuals from discrimination based on their handicap by employers, educational institutions, or programs that receive federal funds. Section 504 defines an "individual with a handicap" more broadly than the Individuals with Disabilities Act (IDEA) and in some circumstances provides additional rights not available under IDEA.

Seniority A statutory system for protecting the job security of employees with the longest periods of service in a district. With few exceptions, the seniority list is used to determine which employees will be the first to be laid off or rehired.

***Serrano* Bands** A specific range of per-pupil funding. Under the *Serrano v. Priest* case (see below), the courts required the California Legislature to reduce differences in general-purpose funding to $100 per student adjusted annually for inflation, called the *Serrano* band. The *Serrano* band was about $350 per student in 2004.

Serrano v. Priest A California court case—begun in 1968 and settled in the mid-1970s—that challenged the inequities created by the U.S. tradition of using property taxes as the principal source of revenue for public schools, saying the wide discrepancies in school funding because of differences in district wealth represented a denial of equal opportunity. In

response, legislators passed Senate Bill 90 in 1972, creating the revenue limit system that put a ceiling on the amount of general-purpose money each district could receive. (See *Serrano* Bands.)

Shortfall An insufficient allocation of money, requiring an additional appropriation or resulting in a deficit.

Single Plan for Student Achievement A required plan for schools that participate in any state or federal program included in the state's consolidated application. (See Consolidated Application.) The plan, which is developed by the school site council, must describe how the school will spend the funds received through the consolidated application to improve student achievement. The school district governing board must review and approve the plan. This replaced the disparate plans required for some state and federal programs.

Small Districts For revenue limits: an elementary district with fewer than 101 students (based on average daily attendance or ADA); a high school district with fewer than 301 students (ADA); and a unified (K–12) district with fewer than 1,501 students (ADA). For some other purposes, a small elementary district is defined as fewer than 901 (ADA). In California, more than 40% of districts have fewer than 1,000 students.

Special Education Programs to identify and meet the educational needs of children with emotional, learning, or physical disabilities. Federal law requires that all children with disabilities be provided a free and appropriate education according to an Individualized Education Program (IEP) from infancy through 21 years of age. (See Individuals with Disabilities Education Act and Individualized Education Program.)

Special Education Local Plan Area (SELPA) Regional group for purposes of administering Special Education services effectively and efficiently. Districts are organized into SELPAs. Some are countywide, a single large district, or part of a district; and some combine several smaller districts.

Split Roll A system of taxing business and industrial property at a different rate from residential property.

Standardized Account Code Structure (SACS) A comprehensive system of accounting for and reporting school district revenues and expenditures. As of 2003–04, all school districts use SACS, which gives them a variety of ways to track and report financial information, including by specific programs and functions.

Standardized Testing and Reporting Program (STAR) Statewide testing system that contains three elements: 1) California Standards Tests (CSTs), which are based on the state's academic content standards; 2) California Achievement Tests, Sixth Edition Survey (CAT/6), a nationally normed, standardized, multiple-choice, basic-skills test; and 3) Spanish Assessment of Basic Education, Second Edition (SABE/2), an additional norm-referenced test that native Spanish-speaking students take during their first year in California public schools. Student achievement on certain STAR tests largely determines a school's statewide ranking. (See Academic Performance Index.)

State Allocation Board (SAB) A regulatory agency that controls most state-aided capital outlay and deferred maintenance projects, and that distributes funds for them.

State Education Agency (SEA) The agency primarily responsible for the supervision of a state's public elementary and secondary schools, such as the California Department of Education.

State Teachers' Retirement System (STRS) A retirement fund required by state law. Certificated employees and education agencies (such as school districts and county offices of education) contribute to STRS.

Sunsetting The termination of statutes and regulations (but not necessarily the funding) for a categorical program. A schedule for the Legislature to consider the sunset of most state programs is part of the laws that created the programs.

Supplemental Grants Money given to some school districts by the state, typically to districts that are less challenged than those receiving Economic Impact Aid (EIA). In some districts these grants supplement revenue limits, while in others they go to specific programs.

Supplemental Services (under NCLB) Additional learning opportunities, such as tutoring services, that must be provided to students from low-income families who are attending schools that have not met annual performance goals for two years in a row under the No Child Left Behind Act (NCLB). Parents can choose the appropriate services

for their child from a list of approved providers. The school district pays for the services. (See Adequate Yearly Progress.)

Tenure A system of due process and employment guarantee for teachers. After serving a two-year probationary period, teachers are assured continued employment in the school district unless carefully defined procedures for dismissal or layoff are successfully followed.

Titles I–X Ten sections in the federal No Child Left Behind Act (NCLB).

Title I provides funds for educationally disadvantaged students, including the children of migrant workers. Funding is based on the number of low-income children in a school and is intended to supplement, not replace, state and district funds. The funds are distributed to school districts, which make allocations to eligible schools according to criteria in the federal law. Schools receiving Title I monies are supposed to involve parents in deciding how those funds are spent and in reviewing progress. Title I used to be called Chapter One. Part A provides basic grants for school improvement, while Part B focuses on helping schools improve their reading programs. Parts C through I provide funding for a variety of purposes, including advanced placement programs and dropout prevention.

Title II provides funding to prepare, train, and recruit high-quality teachers and principals. It also includes grants to integrate technology into the classroom.

Title III provides funding for language instruction for English learner (EL) and immigrant students. This funding is on top of any Title I funding a school might receive. It includes specific assessment and parent notification requirements.

Title IV provides grants for out-of-school programs aimed at keeping students safe and supporting academic achievement. Title IV includes funding for the 21st Century Community Learning Centers and the Safe and Drug Free Schools and Communities programs.

Title V promotes informed parental choice and innovative programs by providing grants to support Innovative Programs (Part A) and Public Charter Schools (Part B). It also includes an incentive program to help charter schools meet their facility needs.

Title VI provides funding to promote flexibility and accountability. Part A provides funds for states to improve the quality, validity, and reliability of their testing systems. It also allows districts to transfer funds among certain titles to most effectively meet student needs. Part B provides extra grant funds and flexibility to school districts that are located in rural areas and serve fewer than 600 students.

Title VII covers Indian, Native Hawaiian, and Alaska Native Education.

Title VIII provides Impact Aid to school districts with children whose families live or work on federal property, such as military bases or Native American reservations.

Titles IX and X cover administrative issues.

Tuition Tax Credit A reduction in state or federal income tax to offset a specified amount of money for private education tuition.

Unification Joining together of all or part of an elementary school district (grades K–8) and high school district (grades 9–12) to form a new unified school district (grades K–12) with a single governing board.

Unionization Joining together of two or more elementary or high school districts to form a single elementary (grades K–8) or high school district (grades 9–12).

Voucher A promise of payment from the state for all or part of a student's education expenses at a school of the student's choice. This term is generally used for the certificates or promises that governments provide public school students so they can attend private schools of their choice.

Waiver Permission from the State Board of Education to set aside the requirements of an Education Code provision or administrative regulations upon the request of a school district. The code specifies which laws can be waived.

Williams v. California A class action lawsuit, originally filed in 2000, in which plaintiffs contend that California has failed to provide thousands of public school students—particularly low-income students and students of color—with "bare minimum necessities." In August 2004 a tentative settlement was reached that included: accountability measures, such as empowering county superintendents to intervene in the lowest-performing schools; a commitment to provide highly qualified teachers in every core class by 2006; and about $1.2 billion to make facilities repairs, buy textbooks, create a statewide facilities inventory, and continue the High Priority Schools Grant Program.

CALIFORNIA DEPARTMENT OF EDUCATION

DATA GUIDE

The California Department of Education (CDE) provides the public with masses of data and other resources about the state's schools through its websites. The DataQuest website is the gateway to the latest demographic, achievement, and staffing data for all levels of education agencies across the state. The CDE website also provides data on the state's schools and districts—including research files—as well as extensive information on the policies and operations of public education in California.

DataQuest, http://datal.cde.ca.gov

The California Department of Education's DataQuest website offers a quick and simple way to access a wealth of data on California schools. This website gives the public access to the most up-to-date demographic and assessment data available, based on user-defined criteria. It also has links at the top of the homepage to the sections of the CDE website that contain research files, FAQs, and other information about state education data.

To look up data on DataQuest:

- First, select the level of data: state, county, district, school, other choices, or SELPA (Special Education Local Plan Area for Special Education information only). Selecting "other choices" allows you to build a larger report that shows multiple agencies; for example, you could request data on all elementary schools in Riverside County.
- Next, select the subject—anything from STAR test scores to dropouts to school technology—and click "submit."
- The following two screens ask for a bit more detail about the year, agency, specific type of data, and other relevant features of the request. Once that information is submitted, a table or chart appears with the requested data.

For example, let's say you want to know how many students graduated from high school in Mendocino County in 2006–07. First, you'd select the level: county. Then, the subject: graduates. Click "submit." The next screen asks for the year (2006–07) and the county (Mendocino). Click "submit." The final screen displays the different reports available on graduates:

- Graduation Rates Based on NCES Definition by County
- Graduation Rates Based on NCES Definition by County (with district data)
- Grade 12 Enrollment and Graduates
- Grade 12 Enrollment and Graduates (with district data)
- # of Grads and Grads with UC/CSU Required Courses
- # of Grads and Grads with UC/CSU Req. Courses (with district data)

Each of these reports includes the number of graduates in the entire county along with the different types of related data. Select the desired report, click "submit," and the data table appears.

Some types of data are also available in a downloadable format. STAR reports on DataQuest, for example, offer a "Download Research File" link that allows you to download large, detailed data files containing test results for individual grades and subgroups within schools. More basic files can be found by selecting the "other choices" level of data. From there, you can create and download (in Microsoft Excel) more detailed reports on enrollment, expulsions, dropouts, staffing, course enrollments, or English learners. For example, you could generate a file showing the enrollment by grade in each district in Fresno County.

California Department of Education Website, www.cde.ca.gov

The CDE also makes a wealth of information—including research files—available to the public on its website. Much of the data that can be found on the CDE website is more quickly and easily accessible through DataQuest. However, the CDE website is an excellent resource for background information to put data into context.

The site is organized into sections, each of which is identified by a two-letter abbreviation in its URL:

- Curriculum & Instruction (www.cde.ca.gov/ci/)
- Testing & Accountability (www.cde.ca.gov/ta/)
- Professional Development (www.cde.ca.gov/pd/)
- Finance & Grants (www.cde.ca.gov/fg/)
- Data & Statistics (www.cde.ca.gov/ds/)
- Learning Support (www.cde.ca.gov/ls/)
- Specialized Programs (www.cde.ca.gov/sp/)

The Curriculum & Instruction section has a great deal of information concerning content standards, curriculum frameworks, and instructional materials. It also provides educators with a wide range of resources to support classroom instruction. The information is organized by subject area and grade spans, where applicable.

The Testing & Accountability section contains information on accountability measures, such as the Academic Performance Index (API) and Adequate Yearly Progress (AYP), state testing programs, and state intervention programs for schools and districts, including those identified for Program Improvement under No Child Left Behind (NCLB). It also describes state recognition programs. Some data-rich subsections include:

- The Accountability Progress Reporting (APR) webpage (www.cde.ca.gov/ta/ac/ar) contains general information, reports, and data files on API and AYP for specific schools, districts, counties, and the state as a whole. This includes information on agencies in Program Improvement.
- The Standardized Testing and Reporting (STAR) program webpage (www.cde.ca.gov/ta/tg/sr) contains a variety of resources about the California Standards Tests (CSTs), the California Alternate Performance Assessment (CAPA), and the California Modified

© Copyright 2011 by EdSource, Inc.

Assessment (CMA). Test results can be accessed from the STAR reporting page (http://star.cde.ca.gov) as well as DataQuest.

- The California High School Exit Exam (CAHSEE) webpage (www.cde.ca.gov/ta/tg/hs) has numerous documents pertaining to the exam, including the independent evaluations of the program. Test results can also be found on the CAHSEE reporting site (http://cahsee.cde.ca.gov).

The Professional Development section contains information on teacher and administrator training, including professional standards and educational opportunities. It also includes information for people interested in entering the teaching profession.

The Finance & Grants section contains a wealth of funding and grants information, including webpages on different categorical programs, financial reporting, and accounting guidelines. The Allocations & Apportionments webpage (www.cde.ca.gov/fg/aa) has links to funding profiles, results, and/or other resources on individual categorical programs, lottery apportionments, Special Education, and much more. The Search CDE Funding section (www.cde.ca gov/fg/fo/sf) is a database for looking up specific programs. Various sections also provide updates on the state budget, federal programs, and regulations related to fiscal oversight and school district audits.

The Data & Statistics section provides data submission requirements, background information, and downloadable files covering a wide variety of data types. Its sections (and examples of their data) follow:

- The Financial webpage (www.cde.ca.gov/ds/fd) contains full data files providing past years' annual financial data, such as annual Standardized Account Code Structure (SACS) unaudited actuals.

- The School Identification webpage (www.cde.ca.gov/ds/si) provides a way to look up all schools and local education agencies in California as well as charter schools, private schools, and Regional Occupational Centers and Programs (ROCPs). It also links to the Public Schools Database, a data file listing all schools and local education agencies (LEAs) in the state.

- The School Performance webpage (www.cde.ca.gov/ds/sp) includes links to information on API and AYP, the California Longitudinal Pupil Achievement Data System (CALPADS), and results for indicators of postsecondary preparation like the SAT and the ACT college admissions tests.

- The School Staffing webpage (www.cde.ca.gov/ds/ss) includes demographic and staffing data on administrators and teachers as well as data on English learners and the staff who serve them from the Language Census.

- The Student Demographics webpage (www.cde.ca.gov/ds/sd) contains many reports on student characteristics as well as information on English learners from the Language Census and California School Information Services (CSIS).

- The Student Health & Support webpage (www.cde.ca.gov/ds/sh) includes information on student participation in nutrition programs, including free and reduced-price meals.

- The Subject Area/Courses webpage (www.cde.ca.gov/ds/sa) links to reports that include select data on courses taught, class-size averages, and related information.

- The Technology webpage (www.cde.ca.gov/ds/td) includes descriptions of California's longitudinal education data systems as well as reports that include data on computer and Internet access in schools.

The Learning Support section has a wide variety of information regarding specific K–12 programs and services, such as before- and after-school programs, nutrition, transportation, and facilities. It also has a Parents/Family & Community section (www.cde.ca.gov/ls/pf) with a wealth of resources. The Clearinghouse for Multilingual Documents (www.cde.ca.gov/ls/pf/cm) is a secure database for educators to use to get translations of parental notification documents.

The Specialized Programs section contains descriptions of and background information on a wide array of programs designed to serve the needs of specific groups of students in California, such as special-needs students and English learners. It also provides information related to specific kinds of schools, such as charters and private schools.

© Copyright 2011 by EdSource, Inc.

ED-DATA
EDUCATION DATA PARTNERSHIP
GUIDE

Ed-Data
Education Data Partnership
Fiscal, Demographic, and Performance Data on California's K-12 Schools

The Ed-Data Partnership website, **www.ed-data.org**, provides Californians with comprehensive, accessible education data for schools, districts, counties, and the state as a whole. You will find performance, staffing, and demographic data, as well as financial reports. Clear data explanations accompany each report, and powerful comparison and filtering tools make examining data easy. In addition, you will find extensive documentation, charts and graphs, and articles about education in California.

How to find data

The Ed-Data website is organized by level (state, county, district, or school), fiscal year, and type of data. Information is displayed in reports. The site provides multiple ways to approach and view information. Although some information, such as student demographics, can be compared across all four levels, other information is specific only to certain levels. For example, teacher salaries are available only at the district level. (See the center chart.)

To get the data you want, select state, county, district, or school from the main page. You can also use the "Find" function to look up a specific school or district. Use the pull-down menus to find information of interest to you. Many of the tables in the reports include a "Pop Trends" feature, which lets you look at data over time in graph form.

REPORTS AND COMPARISONS

	Availability			
	School State	District	County	
Profile General Information Students Staffing	●	●	●	●
Accountability API Growth API Base Adequate Yearly Progress Performance	●	●	(Performance tab only)	●
Financial Reports Intro All Funds General Fund Activity Instructional Programs Revenue Sources		●		(School district and county office totals and averages only)
Teacher Salaries		●		
Bond and Parcel Tax Elections		●		
List of Agencies/Schools		●	●	●
Demographic and Performance Comparisons	●	●		
Financial Comparisons		●		

Ed-Data provides

- School, district, county, and state profiles, including the Academic Performance Index and Adequate Yearly Progress results, graduate/dropout rates, SAT results, enrollment, student characteristics, and staffing information that provide a comprehensive portrait of schools.
- Teacher salary and benefits data, including district and state averages that outline some of the most important expenditures of school districts.
- Bond and parcel tax election data for districts.
- Easy-to-use comparisons of schools and school districts based on the criteria you choose.
- Clear and comprehensive district and county office of education financial reports, with charts and comparisons.

Some sample questions

Some examples of the type of questions Ed-Data can answer follow:

Does my school get a "green light" on Adequate Yearly Progress?

Ed-Data will produce a report showing whether the school gets a red or green light on Adequate Yearly Progress and explain why:

1. From the main page, find the *Reports* section and click *School*.
2. Use the *County*, *District*, and *School* drop-down menus to find the school you're interested in.
3. Select *Accountability* in the *Select Report* drop-down menu.
4. Click the *AYP* tab.

How does my school district's funding per student compare with other districts in the state?

There are two ways to get at the answer to this question. You can use Ed-Data's revenues and expenditures report to compare your district with statewide averages. You can also create a comparison group of districts on variables or metrics that you choose.

Through "Financial Reports:"

1. From the main page, find the *Reports* section and click *District*.
2. Use the *County* and *District* drop-down menus to find the district you're interested in.
3. Select *Financial Reports for District* in the *Select Report* drop-down menu.
4. Click the *General Fund* tab.
5. Compare the district with the statewide average using the *Revenues* and *Expenditures* tables.

Through the "Compare District Finances" tool:

1. From the main page, find the *Reports* section and click *District*.
2. Use the *County* and *District* drop-down menus to find the district you're interested in.
3. Select *Compare District Finances* in the *Select Report* drop-down menu.
4. On the *Districts like this* tab, determine what characteristics you would like to select to create a comparison group.

© Copyright 2011 by EdSource, Inc.

5. Through the *Compare* drop-down menu, you can choose to focus on only districts in the selected county or throughout the state.
6. Through the *Focus on Districts* drop-down menu, you can choose to examine districts with similar characteristics in specific spending areas, or those with similar enrollment or average daily attendance (ADA).
7. Click the *Click to Compare* button. This will generate a table that is also available as a spreadsheet.

Which California high school had the highest score on the Academic Performance Index?

Ed-Data will produce a report comparing the school with the highest score with any other school in the state. There are two ways to get this information.

Through the "Highest/Lowest" tab of Compare Schools:

1. From the main page, find the *Reports* section and click *School*.
2. Use the *County, District,* and *School* drop-down menus to find the school you're interested in.
3. Select *Compare Schools* in the *Select Report* drop-down menu.
4. Select the *Highest/Lowest* tab.
5. Under the *Compare* section, select parameters for the comparison group.
6. In the *Find schools* section, select highest and select the number of top values you would like to return.
7. In the *Show up to* section, select how many results you would like.
8. Click the *Click to Compare* button. This will generate a table that is also available as a spreadsheet.

Through the "Schools like this" tab of Compare Schools:

1. From the main page, find the *Reports* section and click *School*.
2. Use the *County, District,* and *School* drop-down menus to find the school you're interested in.
3. Select *Compare Schools* in the *Select Report* drop-down menu.
4. Under *Focus on schools*, select *API Base Scores*.
5. To the right, select *Close to*. Enter *1000*.
6. Make sure the *Include [Comparison School] in results* box is checked.
7. Select any other items you would like in the comparison report.
8. Click the *Click to Compare* button. This will generate a table that is also available as a spreadsheet.

How much has my county's K–12 enrollment grown over the last several years?

Ed-Data will produce enrollment tables, charts, and a "Pop Trend" link comparing enrollment over a 10-year period.

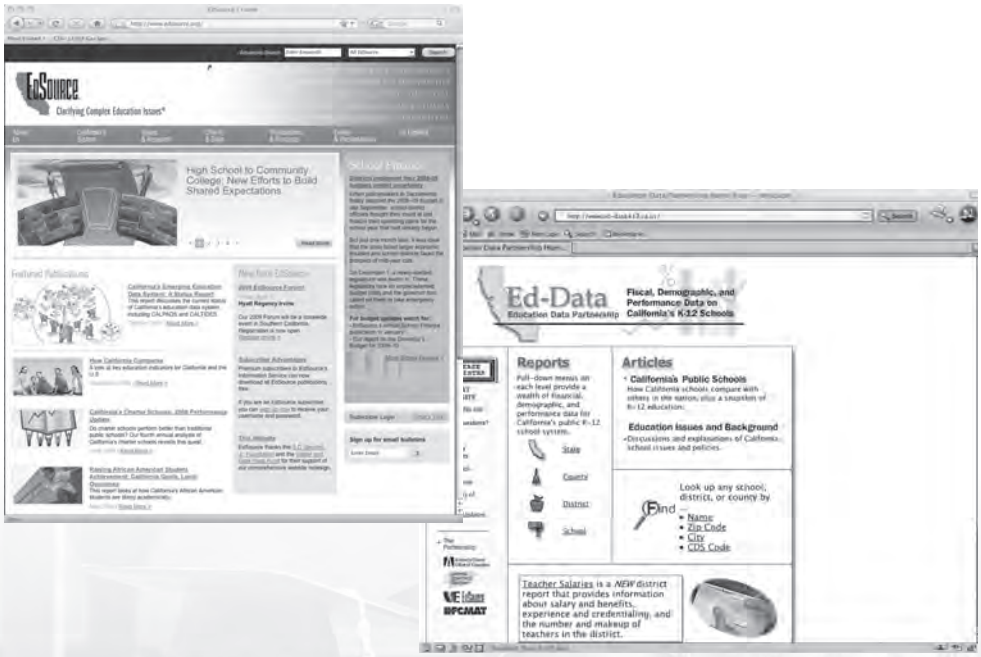
1. From the main page, find the *Reports* section and click *County*.
2. Use the *County* drop-down menu to find the county you're interested in.
3. Select *Profile of County* in the *Select Report* drop-down menu.
4. Click the *General Information* tab.
5. Click *Enrollment by Grade*.
6. Click *Pop-trends* at the bottom of the table. A chart will appear, and you can view enrollment by grade or total enrollment.

© Copyright 2011 by EdSource, Inc.

EdSource
www.edsource.org

A comprehensive site for California education issues!

- Accountability, standards, school finance, student achievement, and more
- Extensive, user friendly links to research, laws, resources, and data
- Access to EdSource publications on a wide range of policy topics



Ed-Data Partnership
www.ed-data.org

A treasure trove of data on California public schools!

- Financial, performance, and demographic data for every school, district, and county in California
- Explanations and definitions that put data in context
- Extensive trend data for tracking changes over time
- Powerful search functions for comparing any school or district with others