PACE

COMMENTARY

Potential Benefits of School Funding Flexibility Mitigated by Budget Crunch

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California faces hard decisions about how to allocate funds to its schools. Some argue for targeting funds to particular programs—a practice known as categorical funding. Others advocate giving schools and districts flexibility in using their funds. Yet there is no clear evidence about the outcomes from either approach. In 2007–08, roughly 40 percent of California's state funds for K–12 education were categorical and therefore had to be spent for particular purposes. The state reduced funding for those programs by 20 percent the following year and simultaneously removed the restrictions from 40 of the 60-plus categorical programs to give districts fiscal flexibility. For these 40 programs, known as the "Tier 3" programs, which account for $4.5 billion of funding, the state gave districts the ability to use the funds in any manner approved by the local school board. This deregulation provided policymakers and local educators a chance to learn what happens when local authorities gain control over a large proportion of funding, albeit while coping with sharp cutbacks in most districts.

In 2010, researchers at the RAND Corporation, the University of California at Berkeley and Davis, and San Diego State University joined to study the impact of this new policy, hoping to understand how districts responded to the fiscal flexibility, particularly how they allocated resources and changed their spending. This information is especially important in light of Governor Jerry Brown's proposal to end many of the remaining categorical programs and dramatically increase districts' ability to spend their budgets as they wish. According to the researchers' latest report, most California school districts used their new flexibility to move money into their general funds to balance budgets and avoid teacher layoffs. "Even with their new funding flexibility, most local districts did not use the funds for new initiatives," said Brian Stecher, a RAND senior social scientist and a co-author of the study. "In an era of repeated budget cuts, most districts' top priorities were preserving fiscal solvency, retaining staff and maintaining existing instructional programs."

In an earlier study, the research team completed in-depth case studies in ten districts; those findings were used to create a survey that was then completed by chief financial officers in 223 districts across the state [there is also an accompanying report that examines overall patterns in revenues and expenditures using statewide accounting data]. The survey responses revealed that most categorical aid money was reallocated by local districts into general funds, decreasing funding for some programs while making more available to others. Two large programs -- those focusing on teacher professional development and offering general purpose school improvement funding -- were most frequently reallocated to the general fund.

A key research question revolved around how the allocation decisions were made. The CFOs reported that most major categorical aid funding decisions were made by the district office staff and superintendents, not by school principals, who did not gain additional discretion from the spending reform.

There is no doubt that the fiscal environment was a major factor in allocation decisions. State funding for public schools has fallen by about 18 percent since the onset of the economic recession and it is unsurprising that so many districts used categorical flexibility to keep solvent. “Hopes of some advocates that local control would spur widespread innovation or a new focus on classroom improvements simply proved unrealistic,” said study co-author Bruce Fuller (also a director of PACE). “Categorical aid flexibility allowed districts to respond more nimbly to changing fiscal conditions during a budget crisis, which was probably a good thing; however, this experience does not tell us how they would use flexibility under other circumstances.”

The full study is available here: Deregulating School Aid in California: How Districts Responded to Flexibility in Tier 3 Categorical Funds in 2010–2011, by Brian M. Stecher, Bruce Fuller, Tom Timar. Julie A. Marsh, with Mary Briggs, Bing Han, Beth Katz, Angeline Spain, Anisah Waite.

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