COMMENTARY

School Finance 101

State Funding Formulas

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In the debate around Governor Brown's proposed "Local Control Funding Formula" (LCFF), a number of issues have been raised that school finance researchers (and policymakers in other states) have been discussing for years. Over the next several posts, this 'School Finance' series will highlight what we know – and what we don't know – about some of these issues. Much of what is covered in these posts (including additional sources and full citations) can be found in School Funding Formulas: What Works and What Doesn't? Lessons for California, a 2007 report done for the Senate Office of Research.

In future posts, I will focus on specific pieces of the funding formula (e.g., what should the base amount be? Which cost factors should be included and how should they be included?). But first, I think it's important to take a step back and remember how we got to this point. Most of what follows will not be news for most readers of this blog but bear with me – not only are there implications for Brown's current proposal but any changes to the school funding system (including upcoming debates about changes to the parcel tax vote requirement or other options for increasing local revenue) must be considered in the context of California's unique history.

OUR CURRENT SYSTEM: SIMPLE BUT NOT

California's current system has been in place for over three decades and the basic formula at its heart is actually fairly simple: districts receive their revenue limit per pupil plus categorical aid. Revenue limits are determined by the state, funded with a combination of local property taxes and state funds, and can be spent however a district wants; categorical aid is (almost) entirely state-funded and must be spent in accordance with the regulations of each program. The system's complexity arises from all those regulations, and the fact that the amounts each district receives cannot be explained in any rational way. Regardless of how one feels about the amounts allocated to districts under Brown's formula, one huge improvement is that at least those amounts are transparent and have a clear rationale.

THE SERRANO EFFECT

In 'the old days', local districts could decide for themselves how much they wanted to spend on their schools. They voted locally to decide tax rates and the state's role in school funding was relatively small. *Serrano v. Priest* and Prop 13 changed all that. For policymakers today, there are two aspects of the *Serrano* rulings that require particular attention. First, the previous system was found unconstitutional because it permitted property-wealth-related disparities between school districts in per-pupil expenditures. In the court's decision, it was suggested that differences of less than $100 per-pupil would be acceptable. Although this $100 band has often been taken as a court requirement, Sonstelie (2001) points out that the court's real focus was on differences in revenue that were due to differences in wealth; the $100 band is an example of a situation that would satisfy the court but presumably, other options would be acceptable as well, as long as revenue differences are not driven by wealth differences.

Second, the focus of *Serrano*, and almost all other equity court cases across the country, was general, unrestricted revenue and expenditures. That is, targeted revenue for specific student needs and special programs were not included in the equalization discussions. The court recognized that districts vary in the needs of their students, and variations in revenue to address these differing needs were not subject to the same equity requirements. This may be one reason why so much funding in California has been allocated through categorical programs. Presumably, the cost-based weights in Brown's current proposal would also be exempt from *Serrano* equity requirements; however, any unrestricted revenue unconnected to costs would not. This is particularly relevant for any discussion about locally-raised funds.

EQUALIZATION THROUGH STATE FUNDING

The current system has achieved the equity required by *Serrano* through equalizing revenue limits over time. Indeed, the path taken after *Serrano* and Prop 13 has led California to having one of the most equal distributions of base per-pupil spending in the country. In school finance parlance, our current system of revenue limits is a version of a **foundation** state-aid formula. Foundation formulas ensure that each district receives some minimum "foundation" amount of per-pupil revenue, regardless of local property wealth. Brown's proposed formula is also a version of a foundation formula with the main difference being that under Brown's formula, the foundation amount is consistent across districts while current revenue limits often vary for no apparent reason. One of the big questions with any foundation formula is "what is the right foundation amount?" In the second post of this series, I will discuss the specifics of this type of formula in more detail.

WHAT DOES LOCAL CONTROL MEAN?

The trade-off for state finance systems that yield more equal distributions of per-pupil spending is that they tend to be more centralized and give local districts less control over their level of funding. This is a concern because the research is fairly consistent that, all else equal, students perform better in less centralized systems (e.g., Loeb and Strunk, 2007; Figlio, 1997). From the perspective of the level of funding, Brown's "Local Control Funding Formula" does not provide districts with any more local control than the current system; a district's funding level is still determined by Sacramento. But what Brown's proposal does provide, by replacing most categorical programs with a small number of cost-specific weights, is increased control over how funds can be spent.

California has never been alone in using categorical programs to target funds; as of 2009, Tennessee was the only state that had ZERO categorical programs. But we have more programs, and allocate more money through them, than almost any other state. As mentioned earlier, allocating funds through these programs is one way to avoid entanglements with *Serrano* equity requirements. But as with reduced local control over the level of resources, reduced local discretion over the allocation of resources has been shown to have negative consequences for student performance (e.g., Loeb and Strunk, 2007). The most common alternatives to categoricals for targeted funds are direct adjustments to the foundation amount (i.e., different foundation amounts for different districts) or weighting the number of students (i.e., different foundation amounts for different students). In later posts of this series, I will discuss these alternatives for targeted funds.

WHAT DO WE ALREADY KNOW?

Although moving to Brown's fairly simple formula is huge reform in California, almost four out of five other states already use some version of a foundation formula. Over thirty states have some sort of weight or adjustment in their formula for English-language learners; almost as many have a weight or adjustment for low-income students. Countless studies have been done to determine what the 'right' foundation amount should be (including several in California) and many have tried to determine which factors truly increase districts costs, and by how much. We are not really forging new policy ground here. Although the choice and design of our school finance system may ultimately be determined by politics, those decisions should still be guided by what research and experience suggest will be best for the children of California.

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