Acknowledgements

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Executive Summary

Funding for California schools had improved rapidly in recent years but is still insufficient to meet educational goals and address the needs of students. Now, schools and districts face three major challenges: precipitous declines in student academic achievement and social-emotional well-being; increased costs associated with distance learning and school reconfiguration to comply with public health orders; and the need to tighten budgets.

State leaders have temporarily shielded school districts from budget cuts by spending state reserves and promising but deferring payments to schools. That debt will eventually have to be repaid but could be reduced if California receives more federal stimulus dollars. Districts can also weather the deferrals by borrowing from banks and utilizing their local reserves.

Longer term, the picture is more bleak as the state economy remains severely depressed. Even if upcoming state ballot measures to increase revenues pass, the new taxes may not be enough to prevent reductions to schools, much less to fully fund them. Nonetheless, investments in education and other children’s services will be critical to strengthening the economic and social future of the state and its citizens.

This report examines how California might secure and protect revenues for schools in sustainable and responsible ways. Drawing from interviews with 23 education stakeholders and an extensive literature review, we outline how education is currently funded and discuss the ways in which California could increase revenue, including:

- Making full and better use of available funds by reexamining state spending priorities and braiding funding across education and children’s services areas.
- Raising new revenues from broader and more stable sources, including property and services taxes, and making it easier for local governments to levy taxes so long as equity is safeguarded.
- Reducing tax expenditures by eliminating tax breaks and incentives.

The report offers the following recommendations:

1. State leaders should seek additional federal revenues to address both immediate and ongoing needs.
2. State and local leaders should promote efforts to raise additional and sustainable state and local revenues.
3. State leaders and education stakeholders should develop a master plan for education funding that covers more than just K–12, particularly early education.
4. The state should strengthen fiscal transparency and analysis so that stakeholders understand how money is being used and see the results of that spending.
5. Researchers and policy analysts should examine how to modernize California’s complex school funding infrastructure.
Introduction

Funding for California schools had improved rapidly in recent years, with districts spending roughly $13,100 per pupil in 2018–19 as compared with an inflation-adjusted $9,680 only 6 years earlier.¹ However, that level of funding still fell short of what would have been adequate given California’s goals as a state, the student population it serves, and its cost of living (Imazeki et al., 2018). According to one of the 2018 Getting Down to Facts II (GDTFII) studies, California would need to spend about $4,000 more per pupil—an additional $26.5 billion annually—to meet its K–12² education goals (J. Levin et al., 2018). Although California had begun to chip away at that gap, the wide gulf that remained is now poised to grow once again.

Now, schools and districts face three major challenges: precipitous declines in student academic achievement and social-emotional well-being due to COVID-19; increased costs associated with distance learning and school reconfiguration to comply with public health orders (Burke, 2020); and substantial budget cuts.

In the short term, state leaders have temporarily shielded school districts from budget cuts by spending state reserves and promising but deferring payments to schools (Manwaring, 2020). That debt, which will eventually have to be repaid, could be reduced if California receives additional federal stimulus dollars. Districts can also weather the deferrals by borrowing from banks and dipping into their local reserves, which are higher than they were at the beginning of the Great Recession.

Longer term, the picture is more bleak. While a poll conducted in January 2020 found that a majority of voters may support increases in educational spending (Polikoff et al., 2020), the landscape has shifted rapidly. The pandemic has triggered record-high unemployment, businesses are struggling to stay afloat, and state revenues continue to nosedive (Bosler, 2020).

It remains to be seen how this economic uncertainty will affect voter behavior for revenue-generating measures that are in the works.³ Already before the coronavirus pandemic, voters had begun to turn down local and state attempts to raise new funding for education.⁴ Even if upcoming ballot measures pass, the new taxes may not be enough to prevent reductions to schools, much less to fully fund them. Stakeholders must address the short-term crisis while also taking a wider and longer view.

¹ Current expense of education per average daily attendance, 2012–13 and 2018–19, as reported by the California Department of Education (n.d.-b), adjusted by the authors for inflation using the California Consumer Price Index.
² Although the GDTFII report focused on K–12 education, the $26.5 billion figure includes recommended investments in preK as well.
³ Expected approaches include Proposition 15, which will be on the November 2020 ballot, and a campaign by the California School Boards Association (CSBA) for “Full and Fair Funding,” which proponents hope to place on the November 2022 ballot.
⁴ In March 2020, voters rejected the Proposition 13 statewide bond measure to improve school facilities; in June 2019, voters in Los Angeles rejected Measure EE, a parcel tax to fund public education. A recent PACE report detailed how voters in Marin County are beginning to resist new taxes due to concerns about system inefficiencies, such as pensions (Melnicoe et al., 2019).
About This Report

In conducting this research, we sought to understand California's policy options and how those might be pieced together to be a better resource for and to better support schools. This report explores how education leaders and decision makers, policy experts, advocates, and other stakeholders view the opportunities, challenges, and solutions related to school funding. We identify what additional research and coordination may be needed to advance sound policy related to school funding.

This research comes as a pandemic has plunged the nation into a recession, communities into distress, and schools into uncertainty. It also comes ahead of elections during which time voters will be asked to make additional investments in education and other social services (Dil, 2020). Although this research addresses options for California to secure and protect school revenues in the short term, it chiefly examines broader and longer term opportunities to improve and stabilize California education.

Research Questions and Methodology

We began with four main research questions; after the onset of the pandemic and the recession, we added a fifth question:

1. What are the options for increasing revenues for K–12 education through new taxes and other policy reforms?
2. To what extent do state leaders, particularly elected officials, demonstrate readiness to make these reforms?
3. To what extent is the public concerned about and willing to make new investments in education?
4. What conditions must be in place for local leaders to make good use of funds?
5. How can California sustain investments, minimize budget cuts, and/or mitigate harm during this and future economic downturns?

To answer these questions, we conducted interviews by phone and in person with 23 people, including researchers, tax policy experts, and education finance experts (10 interviews); advocates and representatives from business and community organizations (6 interviews); and legislative staffers and education decision makers (7 interviews). Sixteen of these interviews took place in the fall of 2019 using a semistructured protocol that focused on: (a) defining adequacy; (b) political and public will and priorities; (c) policy options; (d) challenges and barriers to raising revenue for education; and (e) evidence needed to support effective policy-making. We conducted an additional seven interviews after the coronavirus pandemic had begun affecting California schools and the economy. For these, we asked a separate set of questions about how the pandemic and economic downturn would affect California schools and the options policymakers, education leaders, and voters have to protect revenues and mitigate harm. Researchers coded interview data based on themes that emerged. We also reviewed relevant research, polls, news coverage of the topic, and other relevant documents.
This report examines how California might secure and protect revenues for schools in sustainable and responsible ways both in the short term, as California weathers the current economic and health crisis, and also over the long term. We discuss why California needs adequate education funding, how California’s schools are currently financed, and how that structure affects schools in both good and bad fiscal times. We then draw upon research as well as perspectives from California policymakers, advocates, and education and tax policy experts to offer recommendations.

Education Funding in California

California underinvests in education relative to many other states—particularly those that perform better on national assessments. Based on the most recent federal state-by-state data, California ranks 39th in education spending, when adjusted for cost of living (Education Week Research Center, 2019), and in the bottom 20 percent in fourth- and eighth-grade reading and math performance. That underinvestment, combined with California’s high salaries—a product of its high cost of living—translates into fewer staff in its schools as well. California ranks 48th nationally in teacher-to-student ratios, employing 1 teacher for every 22 students as compared with the national average of 1:16 (National Education Association Research, 2020). California also ranks 48th when it comes to guidance counselors and 51st when it comes to librarians.

Yet California may be able to afford more. California is the fifth largest economy in the world and generates $2.8 trillion in taxable revenues annually (U.S. Department of Treasury, 2018). But the state spends only 3 percent of its gross state product on education—below the national average of 3.5 percent (Baker et al., 2020). While that difference may sound small, it adds up. If California were to make the same education spending effort as the national average, it could mean nearly $14 billion more for education annually, or about $2,200 in additional per-pupil revenues.

Why Adequate Education Funding Matters

By making an adequate investment in K–12 education and potentially also in adjacent segments—including early care and education, higher education, and other children’s services areas—California may have an opportunity not only to improve schools and student outcomes but also to strengthen the economic and social outlook for future generations of our children and communities. (See “Defining Adequacy” on page 5). That is because increased school spending translates into increased student achievement and attainment (Baker, 2017; Kirabo

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5 Based on 2019 National Assessment of Educational Progress (NAEP) progress results (NAEP, 2019).
7 Based on our own analysis. Assumes 0.49 percent of $2.8 trillion in taxable revenues, divided by 6,186,278 students (California’s 2018–19 K–12 enrollment, as reported by the California Department of Education, n.d.-a).
First, a society benefits economically when more of its citizens attain higher levels of education. Tax revenues are higher as people earn more and, with a more educated populace, fewer public investments are needed in the areas of health, crime, and welfare. For example, H. Levin and colleagues (2007) found that each new high school graduate yields a public benefit of $209,000 in higher government revenues and lower spending—a net economic benefit that is 2.5 times greater than the $82,000 it costs to help a student achieve high school graduation. In addition, Hanushek and colleagues (2015) found that the quality of a state’s schools is strongly related to the productivity of its workforce. Investments in public education, they concluded, may produce higher levels of economic output than the original investment. The researchers modeled this analysis for each of the 50 U.S. states. For California, if all students were to achieve at the “basic” level on the National Assessment of Educational Progress, the state could realize an estimated 149 percent increase in gross domestic product.

Second, education is critical to the maintenance of a strong democracy and the values that such an organization of government advances. Glaeser et al. (2007) showed that “schooling teaches people to interact with others and raises the benefits of civic participation, including voting and organizing” (p. 77), thereby concluding that education and democracy are highly correlated.

Finally, these benefits must also be viewed through the lens of economic opportunity and social mobility, especially during this time when income inequality is growing and racial disparities are glaringly apparent. Over the past 12 years, California’s highest income households experienced substantial increases in inflation-adjusted income while the lowest income households have experienced declines (Kimberlin & Hutchful, 2019a). Roughly 7.1 million Californians—about 18 percent of all residents—could not afford to support themselves and their families between 2016 and 2018, based on a Supplemental Poverty Measure that accounts for the cost of housing. Under this measure, California has the highest poverty rate in the nation, worse than West Virginia, Mississippi, Florida, and Louisiana (Kimberlin & Hutchful, 2019b).
That was before COVID-19. Now, Black, Latinx, and low-income families are the ones most affected by unemployment, food or housing insecurity, negative health outcomes, and other traumas (Hough, 2020). Austerity in funding will worsen these divides; conversely, strengthening educational investments, particularly in vulnerable communities, may well be one of the best ways for California to address these gaps and pave the way towards future academic, economic, and social prosperity.

**How Revenue is Distributed for Education in California**

Before discussing our findings, and in order to offer context for the sections that follow, we explain how California’s tax structure works and how state and local revenues are used to fund education. We focus on K–12 but also touch briefly on the early education and higher education systems. We encourage readers already familiar with this background to skip ahead to the next section, “Perspectives From California Leaders on Revenue Generation.” There, we delve into ways stakeholders believe California could increase revenues and improve California’s tax structure and education finance system.

**California’s Overall Tax Structure**

Three main sources form the bulk of state and local tax revenues in California. The personal income tax (PIT) represents the largest share—more than one third—while sales and use tax (SUT) and local property tax (LPT) each represent just over one quarter of revenues. A variety of smaller taxes—including the corporate income tax (CIT); taxes on alcohol and fuel; and hotel taxes—make up about 10 percent of revenues.

Figure 1 shows how these revenues are split between state and local sources. More than half of state revenues come from personal income, and nearly one third comes from SUTs. Most, but not all, of these tax revenues—particularly the PIT—go into the state’s General Fund and are used to fund education, health and human services, and other state programs. Some of the tax revenues go into Special Funds that have specified purposes, like highway construction and public transportation. More than two thirds of local revenues come from the LPT, and nearly one quarter come from SUTs.

Together, all these taxes raise approximately $243 billion annually—about $6,171 per capita, which ranks California tenth in the nation in per-capita tax revenues (U.S. Census Bureau, 2017). Because California is already a high-tax state, any effort to increase education revenues may need to begin with an analysis of why more of those revenues are not reaching education.
Personal income tax (PIT). PIT is the largest state revenue source, with most of that revenue coming from taxes on wages and salaries. PIT also includes taxes on capital gains, business income, dividends, and retirement income. The total revenue generated by PIT is reduced by deductions and credits—which some of our interviewees identified as a place the state could potentially find additional funding for schools. California has one of the most progressive PITs in the country, with higher income earners paying higher tax rates than lower income earners; marginal tax rates range from 1 percent to 13.3 percent (Loughead & Wei, 2019).

The effect of this is twofold. First, income tax revenues come significantly from high-income earners. In 2016, 46 percent of PIT revenues came from the top 1 percent of income earners (California Department of Finance, 2019). Second, PIT is notoriously volatile, since high-income earners’ taxes are largely based on capital gains as well as partnership income, dividends, interest, and rent. This means that fluctuations in the state’s PIT revenues are more pronounced than fluctuations in the state’s economy. Because education funding is heavily reliant on the General Fund and therefore on PIT, state education funds are highly susceptible to economic fluctuations and vulnerable during a recession.

California’s General Fund is far more reliant on PIT today than it was decades ago, and it is less reliant on corporate taxes and sales taxes than it once was. Figure 2 shows how the PIT has grown as a proportional share of the General Fund since the 1950s. This is primarily due to the rapid growth in earnings of households at the top of the income distribution over the past three decades and the relatively slow long-term growth in the state’s other major taxes.
Securing and Protecting Education Funding in California

Figure 2. Percentage of the California State General Fund by Revenue Source, 1950 to Today

![Figure 2](image-url)


**Corporate income tax (CIT).** Corporate tax represents about 6 percent of total state revenues. California’s CIT rate is 8.83 percent, which is fairly high nationally: six states have a higher single rate or top marginal tax rate, and California ranks fourth nationally in per-capita revenues from this tax (Loughead, 2019). The California Budget & Policy Center (CBPC) reports that, “during the past three decades, the share of California corporate income paid in state taxes declined by more than half” (Kaplan, 2019, p. 1); Figure 2 shows that the percentage of the General Fund attributable to CITs has also declined over the decades, from about 15 percent in 1950 to 9 percent today.

**Local property tax (LPT).** LPT is the largest local revenue source and remains in the county in which it was raised. About 40 percent of LPTs collected by county assessors are allocated to school districts within the county. These revenues include taxes on both residential properties and commercial/industrial properties, as well as taxes on some other business and personal properties like manufacturing equipment and aircrafts. Under 1978’s Proposition 13, the tax on real properties (e.g., land and buildings) is limited to 1 percent of the assessed value, and the assessed value cannot rise more than 2 percent each year, or at the rate of inflation,
whichever is lower. When the property is resold, it is reassessed at fair market value. This means that Californians who have owned their homes or businesses for a long time typically pay less in LPTs than do people who have recently purchased their homes or businesses (for a discussion of this, see M. Levin et al., 2018). LPTs have been historically quite stable, even during economic downturns (Ingram & Kenyon, 2014).

Sales and use tax (SUT). Both the state and local governments receive significant funding from SUTs. A wide range of goods are taxed, including motor vehicles, food sold in restaurants, building materials, clothing, and other retail sales. The minimum sales tax is 7.25 percent, and counties and cities can choose to add to that up to a total of 10.25 percent. As shown in Figure 2, the share of state revenues from SUT has fallen sharply over time. This primarily reflects a shift in consumer and business spending away from taxable goods and towards services. California taxes very few services and is one of the few states that does not generally tax personal services, such as health clubs, or business services, such as telephone answering services (Federation of Tax Administrators, 2018).

Sources of K–12 Education Revenue in California and Other States

In order to fund education, California draws upon a mix of different taxes and other revenue sources. While this report focuses primarily on K–12, California of course also invests significantly in early education and higher education, with mixed levels of coordination aimed at improving student outcomes across these segments. As discussed later in this report, this siloing of revenue sources and funding mechanisms across these sectors is a problem that state leaders should aim to address.

California’s K–12 school districts are funded through a mix of state, local, and federal sources, as shown in Figure 3. The share coming from each of these sources varies across districts but, on the whole, state sources make up 59 percent of district revenues, with most of that coming from the General Fund. Districts also receive some additional but modest funds

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8 Under 1978’s Proposition 8, assessed values can be temporarily reduced when the market value of a property falls below its inflation-adjusted purchase price.
9 California’s childcare centers and preschools are funded primarily through three sources. (1) Federal sources provide the vast majority of support, with most coming from Head Start with various mental and behavioral health programs. (2) State sources are primarily comprised of subsidies to childcare centers and directly to parents. (3) Local sources play a role in some counties and municipalities—such as San Francisco and Los Angeles—that provide direct support for early learning through tax initiatives.
10 Each of the three segments of public higher education is funded differently. (1) California community colleges receive the majority of their funding from a mix of state funds and property taxes. They also generate nearly one third of their revenues from local sources, including enrollment fees and other student fees; sales and services; and grants and contracts (Legislative Analyst’s Office, 2019). (2) California State University receives about two thirds of its funding from state funds and tuition and fees, with each of those sources providing roughly half of core funding. The other third of its funding comes from federal sources and other revenue streams, such as parking and dormitories (Petek, 2019). (3) University of California’s largest single source of revenue comes from its medical centers, followed by sales and services from housing, bookstores, and other services and programs (Petek, 2019). About 13 percent of its funds come from state sources, and roughly 14 percent of its funds come from student tuition and fees.
from other state sources, such as the lottery. LPTs comprise 21 percent of district revenues. About 8 percent of education dollars come from federal sources, including Title I funds that support economically disadvantaged students, Title III funds that support English learners, and Individuals with Disabilities Education Act (IDEA) funds for special education services. The remaining 12 percent of education funding comes from other local sources, including parcel taxes, interest income, rent from leased properties, private donations, and various other sources.

In other states, this mix of revenue sources is somewhat different (See Figure 3). Nationally, 47 percent of education revenues come from state sources and 36 percent come from LPTs (National Center for Education Statistics, 2020). California is more dependent on state funds than are most other states. This was not always the case—before voter-approved Prop 13 limited annual property tax increases, LPTs comprised more than half of district revenues (Ed100, n.d.). As the LPT share has declined, the state share has increased.11

Figure 3. Percentage of K–12 Education Funds by Source, California and U.S.

<table>
<thead>
<tr>
<th>Source</th>
<th>California</th>
<th>U.S.</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Funds</td>
<td>59%</td>
<td>47%</td>
</tr>
<tr>
<td>Local Property Taxes</td>
<td>21%</td>
<td>36%</td>
</tr>
<tr>
<td>Other Local Sources</td>
<td>12%</td>
<td>9%</td>
</tr>
<tr>
<td>Federal Funds</td>
<td>8%</td>
<td>8%</td>
</tr>
</tbody>
</table>


California is not an extreme outlier when it comes to the composition of education funding. The balance between local taxes and state funds varies considerably from state to state: state funds represent 89 percent of education revenues in Hawaii and Vermont, and only 24 percent in Illinois (National Center for Education Statistics, 2020). However, as compared with five demographically similar states (Texas, New York, Florida, Illinois, and Ohio), California generates the smallest share of education revenues from local sources and the largest share from state sources (Imazeki, 2018). In general, the proportions derived from state and local sources are not correlated with academic

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11 This speaks to the overall trend since the late 1970s. The share attributable to property taxes has actually gone up and down over time as the state has enacted various policy changes, including tax shifts in the 1990s and early 2000s; and, more recently, the increase in non-Proposition 98 General Fund revenue being spent on education in the form of supplemental and ongoing pension payments.
performance and are reflective of primarily two factors: (a) state culture and historical role of government; and (b) court cases that have pushed states to make larger investments in K–12 (Kirabo Jackson, 2018).

The balance between state and local revenues does come, however, with important equity considerations. Historically, states have funded schools primarily through LPTs, causing large funding disparities between communities with high and low property wealth. To address this, states have increasingly shifted a greater share of the funding burden to other sources, including state general funds (Kirabo Jackson et al., 2016). This delicate balance between local and state funding sources is further discussed in Finding 2 below.

**How California Allocates Funding to K–12 School Districts**

The legislature and governor decide how much money they will devote to education each year, but they rely heavily upon two formulas. Proposition 98 is used by the legislature to determine the *amount of funding* for education and the Local Control Funding Formula (LCFF) is used to determine *how funding is distributed* to school districts.

**Proposition 98.** The total amount of funding that is distributed to California school districts and community colleges is based primarily on the Prop 98 formula, which sets a minimum guarantee for school spending. As discussed by Imazeki (2018) and Taylor (2017), the Prop 98 formula is exceedingly complicated to administer, has been frequently modified, and has usually been used as a ceiling rather than floor for education funding. In any case, Prop 98 has generally ensured that an amount equivalent to roughly 40 percent of the state General Fund goes to K–12 and community college education. This obligation is met through a combination of state funds and LPT revenues.

**Local Control Funding Formula (LCFF).** To determine how funding is divided and distributed to each school district, the state uses the LCFF. Under the LCFF, districts each receive a minimum base grant amount per pupil, with supplemental and concentration grants added, based on the number and percentage of “unduplicated” students who are economically disadvantaged, English learners, and/or youth in foster care. This target funding level is then funded through a combination of LPTs and state funding, with high property-wealth areas receiving less or no state funding, and low property-wealth areas receiving significantly more state funding. Districts whose LPT wealth exceeds their funding targets get to keep the excess

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12 Under Prop 98, the legislature determines the minimum guarantee annually, primarily through the use of one of three “tests.” Test 1 establishes that the guarantee will be about 40 percent of General Fund revenues. Test 2 establishes that funding will be based on prior-year funding, adjusted for changes in K–12 attendance and inflation, defined as per-capita personal income. Test 3, which was created later to protect state spending during weak economic years, establishes that the guarantee will be based on prior-year funding, and adjusted for changes in student enrollment and changes in General Fund revenues.

13 Some districts also continue to receive Necessary Small Schools grants, Home-to-School transportation funds, or Targeted Instructional Improvement grants—provisions that were carried over from the prior funding system.
revenues. As a result, some of these “basic aid” districts have far higher per-pupil revenues than other California school districts.

Additional funding sources. The money received under the LCFF determines the bulk of a district’s funding, but those sources are also augmented by other state sources, the most significant of which is special education, followed by state preschool and a number of other categorical grants and one-time funds. On top of these state funds, districts also receive federal funds and revenues from other local sources.

California K–12 Education Funding Policy History

When the California state legislature, governor, and education leaders came together in 2013 to pass the LCFF, they successfully streamlined the way funds are distributed to districts, while also making the distribution method more equitable and expanding local control. However, the way revenue is generated is still quite complex and may be due for a similar overhaul.

Because decades of voter referenda, court decisions, and policy changes large and small have woven the fabric of today’s funding system, pulling on one thread affects the larger system. Therefore, any consideration of changes must be in the context of an understanding of how all the pieces fit together. In this section, we briefly highlight the major policy events that have shaped the way California funds its education system. (See also Figure 4 on page 13.)

Serrano v. Priest I and II (1971–76). The California Supreme Court determined in its landmark Serrano v. Priest decisions that California’s method of funding schools was unconstitutional. Serrano v. Priest found that California’s school funding system was too heavily dependent on LPTs, since the same tax rate across districts resulted in wide disparities in expenditures due to large differences in local tax wealth. Serrano v. Priest ruled that California must reduce local wealth-based funding disparities.

Senate Bill 90 (1972). Passed after the first Serrano v. Priest decision, SB 90 increased state aid and established a revenue limit system in an attempt to equalize the amount of funding received by districts.

Proposition 13 (1978). Approved by nearly 65 percent of voters, Prop 13 limited the LPT rate to 1 percent of a property’s assessed value, and limited the annual increase in the assessed value to no more than 2 percent each year, or the rate of inflation, whichever is lower. It had the immediate effect of decreasing LPT revenues and also significantly contributed to a decrease in total state and local revenues of about 24 percent (Shires et al., 1998). The measure also transferred to the state the responsibility for allocating property tax revenues among local jurisdictions—a power that previously belonged to counties. In addition, the measure states that any state effort to increase taxes must be approved by at least two thirds of each house of
Figure 4. Timeline of Major Policy Events in California School Finance

- **1971–76**
  - Serrano v. Priest I and II
  - Established that California must reduce local wealth-based funding disparities.

- **1972**
  - Senate Bill 90
  - Increased state aid and established a revenue limit system in an attempt to equalize the amount of funding received by districts.

- **1978**
  - Proposition 13
  - Dramatically limited annual property tax increases by capping tax rates and assessed value. It also limited state and local ability to raise taxes.

- **1979**
  - Assembly Bill 8
  - Determined how much local property tax revenue goes to school districts.

- **1981**
  - Proposition 113
  - Created a constitutional minimum guaranteed funding level for K–12 and community college education.

- **1991 & 2011**
  - Realignment
  - Redirected certain programs and tax revenues from the state General Fund to local governments and/or Special Funds, effectively lowering the Proposition 98 guarantee.

- **1992**
  - Educational Revenue Augmentation Funds
  - Shifted some local property tax revenues into a separate fund to help meet Proposition 98 minimum funding requirements.

- **1991 & 2011**
  - Realignment
  - Redirected certain programs and tax revenues from the state General Fund to local governments and/or Special Funds, effectively lowering the Proposition 98 guarantee.

- **1992**
  - Educational Revenue Augmentation Funds
  - Shifted some local property tax revenues into a separate fund to help meet Proposition 98 minimum funding requirements.

- **2016**
  - Proposition 55
  - Extended the personal income tax increases established by Proposition 30.

- **2012**
  - Proposition 30
  - Increased sales tax rate and the income tax rate for high-income earners, in order to prevent cuts to education.

- **2016**
  - Proposition 55
  - Extended the personal income tax increases established by Proposition 30.

- **2012**
  - Proposition 30
  - Increased sales tax rate and the income tax rate for high-income earners, in order to prevent cuts to education.

The legislature, and it requires that any local effort to increase taxes for a special or designated purpose be approved by at least two thirds of voters.

**Assembly Bill 8 (1979).** Passed in the wake of Prop 13 to help local governments maintain services, AB 8 shifted property taxes from school districts to cities, counties, and special districts located within each county. The revised allocations were based in part on the amount of property taxes that local governments had collected prior to Prop 13. The school district losses were then replaced by increased state funds for education.

**Propositions 98 (1988) and 111.** Passed out of concern that total education funding was too low, Prop 98 created a constitutional minimum guaranteed funding level for K–12 and community college education. The provisions of Prop 98 were quickly altered by Prop 111 in 1990, which, among other things, raised the growth rate in the minimum guarantee over the long term, while allowing for temporary reductions during economic recessions.
Educational Revenue Augmentation Funds (ERAF, 1992). In response to a major state budget shortfall in the early 1990s, the legislature shifted nearly one fifth of statewide property tax revenue from cities, counties, and special districts into a countywide fund for schools—ERAF—essentially reversing the property tax shifts of AB 8. Proceeds from this fund were then distributed to schools and community college districts located in the county, thereby reducing state funding obligations to schools under Prop 98.

Realignment (1991 and 2011). In both 1991 and 2011, the legislature shifted the responsibility for critical programs, particularly health and human services programs, from the state to counties. To fund these programs, the state redirected tax revenues from the state General Fund to local governments and/or Special Funds, effectively lowering the Prop 98 guarantee and depriving schools of billions of dollars over time.

Proposition 30 (2012). Approved by 55 percent of the voters, Prop 30 temporarily increased the sales tax rate and the income tax rate for high-income earners. The dollars flowed to school districts as part of the LCFF. The PIT increases were extended by Proposition 55 in 2016, while the sales tax increases were phased out.

Perspectives From California Leaders on Revenue Generation

Despite the many economic and social benefits of a strong education system, California spends less than other states on K–12 education and also less than what researchers have determined is needed to achieve state goals (J. Levin et al., 2018). The way in which California raises revenues and allocates resources to education, however, is complex. As detailed above, decades of complicated formulas and precedents have made the system opaque and seemingly difficult to change. In this section, we present the findings from interviews—with policymakers, advocates, and education and tax policy experts—conducted to understand how state leaders are thinking about these challenges and emerging opportunities. We integrate findings from these interviews with an in-depth literature review in order to provide a robust description of the state of education funding in California; perspectives on potential sources of revenue; reflections on the level of political will and state of cohesion in efforts to increase education and stabilize funding; and thoughts on what additional evidence and coordination may be needed. Eight findings emerged from this research.

Finding 1. Stakeholders Agree That More Funding is Needed but Disagree on Specific Goals

Agreement that funding is inadequate. Even before the pandemic-induced recession, nearly all our respondents agreed that California is underinvesting in public education. As evidence, some pointed to the fact that districts have struggled to maintain basic services as costs rise in areas such as special education and employee benefits, even as state investments
in education have increased. Many said that districts are struggling to recruit and retain teachers as costs of living, particularly housing costs, rise. Others pointed to the challenge of providing supplemental services to English learners, students living in poverty, and students who have experienced trauma. Still others pointed to California’s low and slow-moving test scores, and its wide achievement gaps.

Many participants pointed to polls as evidence of public opinion on this issue. For example, they cited the annual PACE/USC Rossier poll (Polikoff et al., 2020) and a Public Policy Institute of California poll (Baldassare et al., 2019), showing that voters think the state’s K–12 public education system should be a high priority for Governor Newsom. They also cited the same polls as evidence that voters believe the current level of state funding for their local public schools is insufficient and that voters would potentially support a Prop 13 “split roll” measure (Baldassare et al., 2019; Polikoff et al., 2019, 2020). Advocates engaged in promoting current ballot initiatives had also done their own polling to demonstrate support for their proposals. Despite these polls, recent voter behavior may suggest something different: a statewide bond measure (also named Prop 13) and many local bond and parcel tax measures on the March 2020 primary ballot failed to garner the votes necessary to pass (Jones & Lambert, 2020). It remains to be seen how current economic uncertainty will further influence voter behavior.

Little agreement on what an appropriate level of funding would be. Although interview participants talked about funding goals and how they would measure progress, we heard little agreement about what the goal is besides increasingly more funding. Some of the people we spoke with said that California should aim to generate the additional $26.5 billion that GDTFII researchers said the state needs to realize its educational goals (J. Levin et al., 2018); a few said that California needs to improve its funding relative to other states. However, more of the people we spoke with found national comparisons and specific targets to be of limited use. Said one legislative staffer: “We tend to be somewhat skeptical of placing so much weight on what other states are doing. For one thing, we don’t control what other states are doing.” Even so, an ultimately unsuccessful 2019 legislative effort—a bill authored by assembly member Al Muratsuchi and legislative colleagues—sought to set a goal for California to be in the top 10 in the nation when it comes to school funding.14

With California now experiencing a recession, stakeholders are less focused on increasing education funding than they are on maintaining funding levels and preventing deep cuts. Even maintaining flat funding while overall state revenues are down, however, has required state policymakers to identify new revenue sources. As we emerge from the downturn, it will be important for education stakeholders to reach agreement about what policy changes they want to preserve and to coalesce around a longer term vision for K–12 education funding in California.

14 AB 39 passed through all committees but was ultimately held by the author (Education finance, 2019–2020).
Goals extend beyond “funding adequacy.” Although funding adequacy has a legal context and meaning (see “Defining Adequacy” on page 5), and despite widespread awareness of this meaning in education policy circles, many advocates, policymakers, and educators reported that they wanted to move beyond this term when determining the state’s goals for school funding. Most of our respondents agreed conceptually with the idea and legal definition of adequacy, with many reporting that the state should provide a minimum set of services or a minimum funding level to all students, with that level high enough to support the success of every student.

At the same time, several participants said they intentionally avoid using the word “adequacy.” One legislative staff member described it as a “charged” word that causes policymakers to “cringe,” and an advocate said that “adequacy’ just hasn’t been resonating’ with the public. These individuals did not necessarily take issue with the formal definition of adequacy but instead wanted to talk about school funding in different terms that might resonate more with the public and policymakers. “Full and Fair Funding,” for example, is a phrase that some advocates have used to advance specific policy proposals and a more general campaign related to school funding. Positive and aspirational messaging, these individuals and others said, is needed to build public confidence in the education system and encourage voters and elected officials to invest more in it.

In addition, several people spoke about efficiency, saying that how money is used matters as much as or more than the total spending level. We heard the view that more resources are necessary, but only if the public and policymakers are offered assurances that funds will be spent well. One interview participant said that it is time to “define a process towards better outcomes instead of focusing on inputs, or adequacy.”

Finding 2. Policy Changes Must Balance Values of Equity and Local Revenue-Raising Ability

Throughout our interviews, respondents spoke directly and indirectly about the important balance the state must strike between equity and local control when deciding how to raise funds for education. Our research team noted that this was strikingly similar to the balance California sought to reach when crafting the LCFF. While the LCFF arguably settled this debate on the revenue distribution side of the equation, we heard an opening to have a similar conversation on the revenue generation side of the matter.

Prioritizing equity. In nearly every interview, people addressed equity or social justice in some way. People spoke about California’s changing demographics, its growing economic inequality, its increasing racial segregation, and the toll that the high cost of living is having on middle- and low-income families. “What’s different about this moment?” asked one advocate. “First, demographics. We are more diverse than ever before. Income disparities are more apparent. People are angry about the level of funding, and they know how important education is for our success and their success.”
With race and income-based disparities in both home circumstance (Kimberlin et al., 2020) and educational opportunity (R. Rothstein, 2020) made even more dramatic since COVID-19 prompted school closures, interview participants urged state and federal leaders to invest stimulus dollars in community and school-based services that will mitigate inequities, protect vulnerable children and young people, and address systemic racism. In addition to seeking federal investments—and as a longer term strategy—respondents suggested raising revenues from wealthy individuals, corporations, and resource-rich communities as well as creating mechanisms for redistributing some of those funds to higher need and historically under-resourced places. Said one respondent:

*If you’re going to raise taxes to provide more funding for schools, do you want to do it on the backs of people who are struggling like crazy with high housing costs and everything else in California or do you want to levy it more on the folks that are clearly doing better by all accounts?*

**Improving local revenue-raising ability.** Many of the fiscal and policy experts we interviewed said California must reconsider the limited role local governments have in raising revenue for their schools—a limitation that was imposed by voters with 1978’s Prop 13. They cited two reasons a broader local role could be helpful.

First, significant untapped wealth may reside in local communities, and voters may be more inclined to pass tax measures that will benefit their own children and communities than they would be to pass taxes that augment state coffers with no guarantee that those dollars will show up in local budgets. Said one person, summing up the sentiment expressed by a number of interviewees: “If people feel like they are getting something for their taxes, they’re more likely to approve taxes.” Research generally supports this sentiment. For example, a Public Policy Institute of California study concluded that, “in general, voters appear more willing to support specific services or construction that they feel will be of direct use to them” (Rueben & Cerdán, 2003, p. xii). Of course, the value of local control can be directly at odds with the value of equity, since not every community has equal local taxable wealth.

Second, to stabilize revenues, California needs a higher proportion of revenues to come from more stable tax sources, including but not limited to property taxes, which tend to be far less volatile during economic fluctuations. Currently, the parcel tax (discussed further under Finding 3) is the only real option available to school districts that want to raise additional revenues. Most of the experts we spoke with said this is not a good option: “If the only tool for a school district is the parcel tax, that’s ridiculous; there should be a lot broader set of options for local taxation than one tool.” And, many interviewees were concerned that parcel taxes are inequitable—since high-wealth communities are more likely to pass them—and regressive—since a flat tax is generally levied for each property, regardless of property value. Some of the people we spoke with have been thinking hard about alternative options that would both expand local taxation authority and mitigate negative equity impacts.
Some policy leaders have offered proposals worth consideration. For example, Rick Simpson, former advisor to nine assembly speakers, has publicly promoted the idea of removing from the state constitution the prohibition on school districts levying general taxes (Fensterwald, 2017). This would allow the legislature, by majority vote, to authorize school districts to levy any tax, with the exception of property taxes. Simpson and other experts and advocates have offered several ideas for how to mitigate inequities, though still others have questioned the practicality and efficacy of these ideas. Among the ideas, the state could establish an equalization approach, so that for every dollar raised in a high-wealth area, the state would kick in additional funds for low-wealth areas. Or, it could require consortia of high- and low-wealth school districts to join together to broaden the tax base and share revenues via regional agencies such as counties.

California Forward also put forth a number of ideas in its 2015 “Financing the Future” series of reports, including the suggestion that

the state could allow communities to raise revenues county- or region-wide for K–12 and community college programs and distribute them on a per-pupil basis. State funds could be used to ‘level up’ those areas of the state with a smaller tax base. (California Forward, 2015, chap. 2, p. 9)

They suggest this could be done through countywide sales taxes; redistributing a share of county property tax growth on a regional rather than countywide basis; and increasing tax rates on nonresidential properties.

Some of the advocates we interviewed, however, were leery of a local solution as the primary solution. “Always front and center for us is equity and ensuring that we are not going to go backwards into those times, because we still see inequity in schools today,” said one advocate. Another said that a statewide solution makes more sense from an equity perspective “because it affects and helps everyone” and has mechanisms built in to redistribute funds based on local needs.

Finding 3. California Has Options for Protecting and Increasing Education Funding

Based on our interviews, we determined that California has three main options for securing new education revenues:

1. **Make full and better use of available funds**, including reprioritizing the overall state budget and better leveraging federal dollars.
2. **Raise new tax revenues**, mainly by increasing tax rates, expanding the tax base, or making other changes to the tax structure.
3. **Reduce tax expenditures**, which include tax credits, deductions, incentives, and other tax breaks.
This section describes specific approaches within these three options. We capture the major types of policy options interviewees suggested along with brief details on recent or relevant policy proposals related to each of those. It is important to note that this is not an exhaustive review of all tax policy options that policymakers ought to consider. We limit our discussion only to those that came up in multiple interviews.

1. **Make full and better use of available funds.** Although most of our interview participants focused on tax options, a few pointed out that new tax revenues may not solve the problem. They urged California leaders to make full and better use of resources at the state and federal levels. This should include, they said, reexamining state spending and priorities as well as making sure no federal dollars are left on the table.

   **Budget reprioritization.** California is already a high-tax state and ranks well above average nationally in per-capita tax revenues. Why then, participants asked, does California rank below average when it comes to education spending? Some interviewees urged California leaders, stakeholders, and advocates to examine closely the total state budget and take stock of its implicit priorities, pointing out that spending on prisons and health care has expanded faster than spending on education.

   The data support this: the cost of health care has dramatically increased in California and nationally over recent decades (Wilson, 2019); since the 1970s, the state’s spending on prisons has nearly tripled while K–12 education spending has increased at a slower rate and higher education funding has declined (Nichols, 2018; University of California, n.d.). Between 1980 and 2013, California state and local spending on K–12 education increased by 113 percent while state and local spending on corrections increased by 369 percent (U.S. Department of Education, 2016).

   State policymakers pointed out that education cannot receive a larger share of limited state funds without cuts to other programs. They suggested advocates bring specific policy proposals, arm themselves with comparative data, and carefully examine why more state revenues are not already reaching education. For example, they should unpack the ways in which some state funds and LPT revenues previously available for education have been diverted to county governments through realignment and other tax and program shifts over the years (Misczynski, 2011, p. 11; Petek, 2020), and they should explore why spending in areas like health care has increased and put pressure on the broader state budget.

   **Federal funds.** Everyone we spoke with in spring 2020 said the state should loudly advocate for significant additional federal coronavirus relief funds and acknowledged the important role that federal funding played during the Great Recession. While some were skeptical that the federal government should be considered a viable option for significant long-term support, national education and civil rights groups are increasingly clamoring for a stronger federal role in school funding. The Center for American Progress noted in a 2019 report that
federal funding for schools has not kept pace with inflation, and that IDEA and Title 1 in particular are vastly underfunded (Sargrad et al., 2019). In reference to the latter, the authors wrote:

Years of political compromises and tweaking of the formula ... have left funding for the program inequitable, underfunded, and too widely dispersed to make a meaningful difference in the schools it is designed to serve. Increasing Title I funding should be a priority. (“Dramatically Increasing Investment” sect., “Public Education Opportunity Grants,” para. 1)

Some of our interview participants spoke about the importance of the U.S. census, with one saying: "We’re definitely keen on making sure California receives what it should under the census in terms of federal dollars." The census count is used as the basis for determining how much each state gets in federal Title I funds, special education grants, and school lunch program funding (Litvinov, 2019). Advocates and community organizers have expressed concern that California may already be at risk of an undercount, since some populations, particularly immigrant communities and people of color, may face language barriers or have concerns about sharing their personal information with the government.

Finally, respondents said that California should draw down additional Medicaid dollars for schools. Researchers have found that California school districts use fewer Medicaid dollars for school-based health care and mental health services than they could, and fewer than many other states do (Reback, 2018). Researchers from WestEd have found that California ranks 40th out of 45 in the country in Medicaid spending in schools per Medicaid-eligible child and projects that California may be leaving hundreds of millions of dollars on the table. Better leveraging of these and other federal entitlements would reduce district reliance on General Fund dollars for critical physical and mental health services.

2. Raise new tax revenues. Experts we spoke with said the state should aim for a broader tax base in order to spread the tax burden across sectors and allow rates to be more modest. The state should also aim to identify a tax base that provides a growing supply of revenue while minimizing the tumultuous impact that volatile revenues have on the state’s budget, and particularly on education funding. The K–12 system’s current reliance on unstable revenue streams is problematic, said multiple interview participants, because it creates financial uncertainty for school districts and prevents them from being able to plan for the long term. Said one advocate: “I think [the volatility] just puts us on really shaky ground overall, so you get the boom-and-bust approach, which hurts public education’s ability to have continuous improvement over time.” The major new tax ideas that were proposed by interview participants are summarized in Table 1.

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16 For further insight into tax policy principles, a good primer can be found through the Budget and Policy Center (Ross et al., 2013).
### Table 1. Comparison of Potential New Tax Reforms

<table>
<thead>
<tr>
<th>Tax Type</th>
<th>Options</th>
<th>Type of Change</th>
<th>More or Less Equitable</th>
<th>More or Less Volatile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Income Tax (PIT)</td>
<td>Increase marginal rates on high-income individuals (e.g., maintain and/or increase the Prop 30/55 increase).</td>
<td>Statutory</td>
<td>More</td>
<td>More</td>
</tr>
<tr>
<td>Corporate Income Tax (CIT)</td>
<td>Increase the tax rate on corporations, in combination with other changes.</td>
<td>Statutory</td>
<td>More</td>
<td>Unclear</td>
</tr>
<tr>
<td>Sales and Use Tax (SUT), Services</td>
<td>Expand sales tax to services.</td>
<td>Statutory</td>
<td>More, since sales taxes on goods can be regressive. Services taxes could reverse or minimize that depending on which services are taxed.</td>
<td>Potentially less, since expenditures on services are more stable than spending on goods.</td>
</tr>
<tr>
<td>SUT, Goods</td>
<td>Impose or expand taxes on specific goods (e.g., vaping products, tobacco, cannabis, soda, firearms).</td>
<td>Statutory</td>
<td>Unclear</td>
<td>Unclear</td>
</tr>
</tbody>
</table>
| Local Property Tax (LPT)  | • Increase the tax rate beyond 1 percent.  
|                           | • Increase the potential appraised value growth rate beyond 2 percent.  
|                           | • Create a “split roll,” removing the 2 percent cap on increases in assessed value for corporate properties.  
|                           | • Put a surcharge on properties above a certain value.  
|                           | • Remove inheritance tax shelter by reassessing properties at market rates when they are passed down to children. | Constitutional | Potentially more, if a greater share of the tax burden is shifted towards corporations and/or families that have long-held property wealth. | Potentially less, since property taxes are a stable revenue source. |
| Parcel Taxes and Other Local Taxes | • Lower voter approval threshold from two thirds to simple majority or 55 percent (as was done with bonds).  
|                           | • Expand menu of special taxes districts can levy to include more than just parcel taxes. | Constitutional | Potentially less, since higher wealth communities are more likely to pass (and benefit from) local taxes, and since parcel taxes are regressive. | Potentially less, since these changes could help broaden the tax base. |

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27 California School Boards Association (CSBA) “Full and Fair Funding” campaign estimates raising $15 billion from combined PIT and CIT changes. Their proposal is to increase taxes on corporate income over $1 million by up to 5 percentage points, on personal income over $1 million by up to 2 percentage points, and on taxable income over $2 million by up to 3 percentage points (Flint, 2019). Separately, the Legislative Analyst’s Office has estimated that a 10 percent across-the-board increase in the income tax rate could yield roughly $10 billion (2018a).

28 CSBA’s “California’s Challenge: Adequately Funding Education in the 21st Century” (Bray et al., 2015) proposal suggested eliminating two corporate tax breaks ($0.6 billion) and imposing an oil severance tax on corporations ($1.6 billion).

29 Senator Bob Hertzberg’s SB 522 sought to establish legislative intent to do this. The Berggruen Institute’s “A Blueprint to Renew California” proposed to broaden the sales tax to apply to services, with exemptions for education and medical care (Berggruen et al., 2011). California Forward estimated possible revenues between $5 and $25 billion annually, depending on what services are taxed (California Forward, 2015, chap. 3, p. 8).

30 The Legislative Analyst’s Office estimates that the California Schools and Local Communities Funding Act will raise $6.5 billion to $11.5 billion annually, with 40 percent of that for education (Petek & Martin Bosler, 2019).

31 The Lifting Children and Families out of Poverty Act Initiative of 2016 was not ultimately put on the ballot but would have put a surcharge on properties of over $3 million assessed value. The Legislative Analyst’s Office estimated the initiative would raise $6–7 billion annually in revenues (Taylor & Cohen, 2015).

32 In 2019, the unsuccessful SCA 5 (CA Sen. Amend. SCA-5) proposed a senate constitutional amendment to allow a school or community college district to impose, extend, or increase a parcel tax by 55 percent voter approval.
**Potential changes to the personal income tax (PIT).** California increased the marginal tax rate on high-income individuals with Prop 30 and then extended it with Prop 55. Despite this, several people we interviewed thought that PIT could be further increased on high-income earners in order to generate additional revenues. This has been tried before. In 2019, advocates from the California School Boards Association (CSBA) and partners, the Association of California School Administrators, the California State PTA, and the Community College League of California, explored but ultimately did not pursue the idea of a 2020 ballot initiative that would increase taxes on personal incomes over $1 million by up to 2 percent, and taxes on incomes over $2 million by up to 3 percent. The Legislative Analyst’s Office has estimated that a 10 percent increase in the income tax rate, across the board, could yield roughly $10 billion (2018a).

Many interview participants explained that changes to PIT could help California tackle income inequality. The implication was that by taxing wealthy individuals and redistributing resources through government programs and investments, California could bolster opportunities for families and communities. However, we also encountered concerns about increasing reliance on PIT. One researcher and several policy experts noted that California already has a high income tax rate, with higher rates on top-income earners. “California already has one of the most progressive tax systems in the country, and so that should be taken into account when thinking about what comes next,” said one interviewee.

This is especially true, participants said, because PIT is so volatile—and this can create financial uncertainty for the state in general and for school districts in particular:

*The personal income tax, particularly when we’re talking about that tax applied to high income earners, is a particularly volatile source of revenue. So it could raise a lot of money but not necessarily a consistent amount from year to year. It could swing quite a bit.*

In recent years, California has buttressed its budget against this volatility by creating rainy day accounts for both the General Fund and K–12 education. However, these funds have been insufficient to protect school districts from deferrals and possible budget cuts during this steep economic downturn.

Some interviewees also expressed concern that a higher tax rate might drive wealthier individuals out of California. Mused one analyst: “Is there some point at which it would start having a negative impact on migration patterns of higher income individuals who basically get chased out?” The research on this is mixed. A 2019 Hoover Institution paper found that Prop 30’s increased tax on high-income households caused migration and dampened the impact of the tax reform (Rauh & Shyu, 2019). The previous year, other Stanford-based researchers looked at 25 years of tax filings in California and found that three tax reforms, including two “millionaire taxes” created “little migration response to changes in top tax rates” (Varner et al., 2018).
Potential changes to the corporate income tax (CIT). Many of the advocates we spoke with liked the idea of taxing corporations. For them, this resonated as a strategy for expanding economic justice. Said one advocate: “We know that [corporations] are the ones winning in this economy.” At least one fiscal policy expert agreed, saying:

*Big businesses are making huge amounts of money. I think that’s where, in California in particular, the focus is going to be. Maybe it is a confluence of both good public policy and good politics to sort of push in that direction.*

While some cautioned that we would need to be sure to understand the impact such a move would have on companies choosing to do business in California, other interview participants dismissed this concern. Since corporate taxes are based on where sales occur, not where the business is physically located, they argued that physically relocating a business outside of California would not affect the company’s taxes, assuming it still wants to do business in California.

One potential option would be to replace the existing tax on corporation profits with a tax on gross receipts. Such a tax is imposed, usually at a low rate, on all businesses sales at all stages of production (Watson, 2019). While such a tax would be less volatile and would potentially raise considerably more revenues than a tax on profits, one analyst cautioned that such a tax could have “potentially large negative economic effects” in terms of discouraging business to locate in the state. In part for this reason, gross receipts taxes are currently used in only a small handful of states.

The 2017 Tax Cuts and Jobs Act reduced federal taxes for corporations (Tax Policy Center, 2018). The CBPC points out that for this reason—and because the state tax rate on corporate profits has declined over time—corporations will soon be paying less in taxes than they have in decades. CBPC suggests that the corporate tax rate—in combination with corporate expenditures (such as credits and deductions) might be one area to which the state could look for additional revenues.

Potential changes to the sales and use tax (SUT). Most of the people we spoke with, to the extent they had an opinion on the matter, thought it was a good idea to look at SUTs as a funding source. Broadening the tax base to include services, in particular, was appealing to people for several reasons. First, the services sector offers California a growing tax base. As personal, business, and professional services become a larger and larger share of our state’s economy, there is potential for tax receipts to rapidly grow. Second, the state would have great latitude to select services to tax based on larger goals and state values. These taxes could be targeted in ways that are relatively progressive by focusing only on business services, such as software-as-a-service. Or, they could be spread more evenly across the population by focusing on personal services such as salons or dry cleaning.
Efforts to tax services are not new. Senator Bob Hertzberg has twice run bills that would do this.\(^{23}\) And in its 2011 “A Blueprint to Renew California,” the Berggruen Institute proposed to broaden the sales tax to apply to services, with exemptions for education and medical care (Berggruen et al., 2011). However, this proposal was in combination with other significant structural changes to California’s system of taxation, including: reducing the sales tax rate on goods, providing a sales tax rebate to those with low incomes, reducing the income tax rate while maintaining its progressive structure, and doubling the homeowners’ exemption and renters’ credit. The idea is that cutting PITs and broadening the tax base would stabilize the boom and bust cycle of the budget.

The state also has the option to broaden the sales tax base by taxing additional products, such as candy or bottled water. Some interviewees mentioned taxes on sugary beverages and vaping products as options; the governor has recently introduced a proposal to tax nicotine-based vaping products—a move that could generate $32 million in its first year (California Department of Finance, 2019). Although few people in our interviews discussed these options in much depth, some suggested that the best solution might be to broaden the sales tax base by including services, and then to lower the tax rate on goods. This combination of reforms could increase total revenues while also increasing progressivity.

**Potential changes to the local property tax (LPT).** Because of the cap Prop 13 places on both the property tax rate and the growth in assessed value, many dismissed residential property taxes as a place to look for additional revenue, describing it as a political “nonstarter.” Prop 13, said one participant, “has been the third rail, and once you’ve got California homeowners in love with the benefit of Prop 13, all politicians know that if you get anywhere near it, you’re going to lose.”

However, nearly everyone referenced recent efforts to “split the roll” in order to allow corporate property assessed values to grow at market rate—a move that the Legislative Analyst’s Office (Petek & Martin Bosler, 2019) projects could raise $6.5 to $11.5 billion dollars for cities and counties, with 40 percent of that going to school districts and community colleges. Under a proposal that voters will be asked to consider in November 2020 called the Schools and Communities First Act, property taxes for businesses would be reassessed each year to reflect current property values instead of being based on the initial purchase price as they are now. The measure would not affect property taxes for homeowners; the assessment of residential properties would continue to be based on the purchase price. Just about every one of our participants had opinions about this proposition.

Several described it as a move that would address fairness. The current system, said one education policy analyst, “creates artificially low property assessments for corporations that

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\(^{23}\) SB 8 in 2014 (Taxation, 2015–2016) and SB 933 in 2018 (Sales and use taxes, 2017–2018) both failed to gain sufficient support in the legislature.
have tremendous wealth in this state and are basically not paying their fair share for how much property they own.” Another said that the policy targets “corporate winners” like Disney and Chevron, who “benefit from these loopholes.”

Others expressed concern that the ballot measure would not raise nearly enough money for education or even that the payoff would not be worth the risk—specifically that the measure, if passed, might mislead voters into thinking that the education funding problem had been taken care of. Some noted that the tax increase would take several years to implement and would not help schools withstand the current fiscal crisis. Others were equally concerned about what would happen if the measure, which has come under attack by the business community, fails at the polls. “The sad thing about the split roll proposal, because of the space it has in the debate … is that if … it fails, then all our ammunition is gone.”

A few of our interview participants mentioned exemptions in Prop 13 that allow properties to escape reassessment when they are passed from parents to children and in other circumstances. These exemptions could be eliminated to both increase revenues and address inequities, including the intergenerational accumulation of wealth (Dillon & Poston, 2018). A measure on the November 2020 ballot24 would strike this exemption while changing other rules for tax assessment transfers and could result in additional state revenues of tens to hundreds of millions of dollars annually.

**Potential changes to the parcel tax.** About half of our participants discussed the parcel tax, and most were critical of the role this tax has played in California education funding. California is the only state in the nation that permits this add-on tax; “special taxes” are permitted by Prop 13 so long as they are not based on the value of property. Accordingly, parcel taxes are based on a flat amount or uniform rate on a unit of property. Some described it as an inequitable tax—one that is more easily passed in higher wealth communities—which is particularly problematic because the money it raises stays within the district or jurisdiction that raised it. Others pointed out that these taxes are regressive, since low-value properties are taxed the same as high-value properties; still others noted that there is very little growth in the number of parcels, meaning that revenues from these taxes cannot grow much over time.

Despite this, there have been some efforts to lower the parcel tax threshold from 66.6 to 55 percent, as was done with school construction bonds. Making it easier to pass parcel taxes, proponents argue, would empower local communities to raise additional revenues for their schools. Relatedly, a series of recent court decisions have seemingly held that a simple majority (rather than two thirds) is sufficient for approval of a citizen initiative proposing a special tax, of which the parcel tax is one type. In September 2020, the State Supreme Court refused to take up an appeal of a San Francisco appellate court decision on this issue, upholding a special tax

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for homeless services that was approved by only a simple majority of voters. In a separate 2017 decision related to a citizen-initiated cannabis tax measure, the State Supreme Court also ruled that this may be the case. However, other local decisions have been mixed and the issue is probably not settled (Christopher, 2019).

However, some experts suggested that the newly limited federal State and Local Tax (SALT) deduction—which now caps personal property tax deductions at $10,000—disincentivizes taxpayers from passing parcel taxes because they may no longer be fully deductible, especially in communities with high property values. This point is reinforced by a 2019 study finding that Marin voters are increasingly hesitant to pass parcel taxes (Melnicoe et al., 2019). That report notes that the SALT deduction plays a role in that hesitancy, as do concerns about diversion of funds to pension obligations.

**Potential other taxes.** Over the course of our interviews, individuals mentioned a number of other tax ideas, such as oil and gas extraction (which at least three people viewed as politically problematic) and sports betting. Some of these—and other tax ideas not mentioned here—may merit further discussion and consideration but did not feature prominently in the interviews we conducted.

3. Reduce tax expenditures. Some people encouraged policymakers and advocates to consider tax breaks as a source of additional revenue. These so-called tax “expenditures” include tax credits, deductions, incentives, and other types of tax breaks. “There’s lots and lots and lots of tax expenditures in our tax code in the state of California,” said one analyst. An advocate agreed, saying: “You can always justify many of them, and some are very worthy. However, when you start to add them up, you see how that impacts Prop 98 and the guarantee.” And indeed, the numbers are substantial. According to the most recent Department of Finance Tax Expenditure Report, 2019–20 expenditures will reduce state PIT revenues by $57.5 billion, SUTs by about $9.6 billion, corporate taxes by about $5.7 billion, and other taxes by about $100 million (California Department of Finance, 2020a).

Governor Newsom has already begun to tap this source of revenue to bolster education spending. His 2020 budget includes a temporary 3-year suspension to certain corporate tax breaks, thereby finding an additional $4.3 billion in state revenues (California Department of Finance, 2020b).

Tax expenditures, which are essentially a form of government spending through the tax code, are relatively easy to pass since they require only 50 percent of the legislature to support

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26 California Cannabis Coalition v. City of Upland, https://www.leagle.com/decision/incaco20170828036
28 The budget suspends net operating loss deductions for medium and large business, and caps other business incentive tax credits.
them. But eliminating them is harder, said one of our interview participants, since a move to do so is considered a tax increase and therefore requires a two-thirds majority. Some people we interviewed suggested that California could make it harder to renew tax expenditures or could increase state government oversight of them. The Department of Finance’s annual report does account for these expenditures, but one person pointed out that it does not assess the expenditures “to describe whether they have value or not.”

**Finding 4. Political Will to Raise Funding Needs to be Strengthened**

Most of the people we interviewed said that state policymakers care about education funding but that it is difficult for them to do much to increase it. When we interviewed people prior to the onset of COVID-19, some said that legislators are hesitant to put more money into education because they have already increased funding. Said one legislative staffer:

> I think members are conflicted because they feel like: “Gee, didn’t we just throw a lot of money at K–12? Shouldn’t that be enough?” But they’re also hearing from constituents knocking at the door, like: “We don’t have what we need.”

Some people pointed out that legislators have little incentive or leverage to increase education funding because Prop 98 already guarantees education roughly 40 percent of the budget. Said one budget decision maker of the education program area: “We have a system that has a guaranteed amount that will be received, and that is a good thing, that doesn’t exist in other parts of the budget.” Even so, that guarantee—which on one hand is a safeguard—can also make it more difficult for policymakers and advocates to negotiate for more, especially when additional spending for education would require reductions to other program areas. Said one policy expert: “Although Proposition 98 is a constitutional floor, it has become a political ceiling.”

Some said that legislators want to see better outcomes in exchange for increased funding. Said one legislative staffer: “There’s a hesitancy, I think, from some of [the legislators] to make the case that we need more funding when we’re not seeing the [achievement] gap closing.” Still other members, this respondent said, want to give new reforms time to work. “We did a lot of different things; we didn’t just change our funding structure, we changed our curriculum and we introduced a new testing system, and we had a [new] Dashboard ... we did everything at once.”

Others pointed out that while individual members of the legislature may be committed to the issue, the real change is in securing enough votes to advance changes. Said one analyst:

> There are some members who ... have made [education funding] their top priority and introduced bills along those lines. But most of the ideas that they have would require not just a committed group of legislators, but two thirds of the whole legislature to go along with something. And that’s ... been a harder coalition to assemble.
The reality is that some of the most viable efforts to increase funding are currently happening at the ballot box, not through the legislature. A coalition of grassroots, community-based organizations qualified the Schools and Communities First “split roll” proposal for the 2020 ballot, and those same groups were instrumental in securing signatures and support for Prop 30 in 2012, as well as other efforts to improve communities such as Proposition 47 in 2014. This is somewhat convenient for state policymakers, allowing them to justify their inaction, said several interview participants. “They can just say: ’We’ll let the voters decide.’”

When Governor Newsom delivered his 2019 State of the State address, he said this about school funding:

*Districts across the state are challenged to balance budgets even in this strong economy, and at a time when we’re spending more on schools than ever before. Seven years ago, we invested $47.3 billion in our schools. Next year, with your support, we’ll invest more than $80 billion—that includes $576 million for special education. But it’s not enough. We’re still 41st in the nation in per pupil funding. Something needs to change. We need to have an honest conversation about how we fund our schools at a state and local level.* (Newsom, 2019, para. 80–82)

Some respondents said that although Governor Newsom seems interested in making additional investments in K–12 education, it may be hard politically for his administration to do much about it since it will inevitably require tax increases. That is something that will be hard for the governor to do while incomes and local tax collections are down, pointed out one legislative staffer. During an economic crisis, if the governor is “focused on where to cut, it’s hard to take the lead on how to raise revenue.”

That said, nearly everyone agreed that the governor’s involvement would be critical to any efforts to forge a broad solution and coalition, just as Governor Brown’s engagement was critical to advancing Prop 30 in 2012 and the LCFF in 2013. Worth noting is that Brown’s successful efforts closely followed the Great Recession. There could be a case to be made that the current crisis provides fertile ground for the rebuilding that must follow; new investments in and reforms to education funding could be part of such an endeavor.

**Finding 5. New Revenues Must be Paired With System Improvements and Accountability**

Across many of our interviews, participants spoke of the importance of pairing new funding with system improvements. Many of our respondents said it is difficult to know how money is being used and if it is being well spent, and many pointed out that outcomes have not improved even as spending has. Legislators “feel like they haven’t yet seen any substantial outcomes from providing those additional dollars,” said one person who works in the legislature.
With outcomes flat and little information on how money is being spent, many expected that policymakers, the public, and business leaders would be hesitant to invest more. The business community, said one interview participant, is suspicious, feeling like: “You’ll probably never tell me you get enough, it’s never adequate, you’ve got those teachers’ unions and bureaucracies so it just feels like a black hole.”

Several interviewees said this is where advocates need to make the case more effectively: “One of the challenges is there hasn’t been this really sharp connection between how much funding the state has provided in the past, and how well students are doing.” Some said that the solution is to invest in specific strategies, mentioning teacher recruitment, more counselors, and improving workplace conditions and school cultures. Others said that the issue is more about data and communications. Strikingly absent from the interviews was conversation about how districts could or should make systemic improvements, and rarely did we hear mention of California’s new Statewide System of Support.²⁹ For most participants in our interviews, there did not seem to be a link between the state’s new investments in continuous improvement and the conversation regarding school funding. When we probed on this, one legislative staffer—whom we spoke with prior to the COVID-19 pandemic—told us: “Those conversations [about systemic reforms] are still happening a little bit, but I think the desire to increase school funding has been separate from those conversations.”

Several people expressed frustration that the Local Control and Accountability Plan (LCAP) process has not done more to increase transparency, and several said that we need more and better data to understand what is happening. A 2019 Auditor of the State of California report on the LCFF affirmed these concerns, saying: “Districts do not always include clear information in their LCAPs regarding their use of supplemental and concentration funds” (p. 15) and that “policymakers and other stakeholders still lack adequate information to assess the impact of supplemental and concentration funds on the educational outcomes of the intended student groups” (p. 29).

“Under LCFF, we know that a lot of the new money went into compensation,” said one fiscal expert, who continued:

*We should have more data on whether more money or compensation did or didn’t work. But we don’t seem to have that. So, it is difficult to talk about more money when we don’t know how we’re using our current funds and whether LCFF is working.*

²⁹ A recent PACE report indicated that the System of Support needs substantial additional investments to drive continuous improvement in the state as intended (Humphrey & O’Day, 2019).
Some interviewees spoke about the budget pressures districts feel and noted that even before the 2020 fiscal crisis, they were struggling under the weight of pension obligations, rising health care costs, and other fiscal pressures. While some were sympathetic and saw this as evidence that districts need more money, others expressed little sympathy, describing some districts as “completely dysfunctional” and misusing money or making poor decisions. In reference to one district in financial distress, one person said: “I don’t think many people in the legislature feel sorry for them because they’ve done it to themselves.” A number of participants expressed concern that, absent other structural reforms, any new revenues would be sunk into increased pension costs or generous health care benefits, or would “go onto the bargaining table,” leaving policymakers and the public saying: “Hey, this hasn’t actually done what we wanted it to do, which is stabilize funding.”

Since COVID-19, district budget pressures have only grown. People we spoke with said that district leaders will need more flexibility over their already-limited budgets in order to maintain fiscal solvency while also adjusting their programs to comply with public health requirements, not to mention the investments in services they will need to make in order to address growing student academic, social, and emotional needs. These people—and also district superintendents, in several letters to state leaders—said districts will need more flexibility over their budgets and will also need flexibility around instructional time, class sizes, and staffing issues like layoffs and midyear retirements.\footnote{See for example Beutner et al. (2020).} Advocates have countered that any flexibility must be paired with minimum statewide expectations for quality and safeguards for equity.

Finding 6. The Conversation Must be Broadened Beyond K–12 Education, Especially to Early Education

Many of our interview participants expressed concern that conversations about K–12 funding are siloed off from conversations about funding for other sectors that serve children, youth, and communities. This was true in our conversations before COVID-19, and it was even more pronounced in our post-COVID-19 interviews. When advocates are competing against one another for limited resources, interviewees cautioned, success is harder to achieve and efficiencies are lost. Asked one legislative staffer: “If we’re serving the same kids and communities, how are we working together to make sure we’re making our dollar stretch as far as we can?”

Some interviewees said that K–12 advocates should fight for not only K–12 funding but also funding that will benefit the same children, families, and communities across other program areas. Others more explicitly questioned whether K–12 education is indeed the most pressing issue. Said one tax policy expert, whom we interviewed before COVID-19:
We see other areas [that] aren’t getting as much money as they need. If you think about something like early childhood education, or maybe transportation, or other things that might not get money. ... There is this argument on the margin, if California is going to raise a bunch of money, is the most pressing need school or is it something else? The need for funding and fixing water supplies and fire safety, and the infrastructure stuff related to global warming all feel really important and possibly devastating if not addressed.

Since COVID-19, most we spoke with agreed that student and community needs have only grown. When it comes to education, they said the state must focus in particular on addressing learning loss.

Although our interviews began with a focus on K–12 education, early childhood education came up repeatedly. Many people referenced research on the importance of early education, and some noted that the governor and certain legislative leaders would like to prioritize childcare and early education:

We talk about wanting this P–20 system, but we still look at [early education, K–12, and higher education] as separate siloed systems, so we don’t talk about them jointly as a system enough. And the funding has been a challenge, even though the research says that the earlier you reach students, the better prepared they are for K–12 and the better they do.

This siloing is indeed a reality, not only for education leaders but also for families seeking to navigate the system. For example, a low-income parent of a 4-year-old seeking care could have multiple options: Transitional Kindergarten—which is funded and provided by the K–12 system—California State Preschool, federally funded Head Start, or state-subsidized childcare. GDTFII researchers noted that these settings have “significantly different standards” and observed that there is “little coordination among the agencies” (Stipek, 2018, p. 3).

A few advocates said that policymakers need to start viewing resources from the perspective of community members and families. Those people, they argue, think less about specific funding streams and more about the opportunities and services their children can access. One advocate spoke about the importance of children having access to arts education and science. Parents do not think about the associated dollars, she argued, but rather the opportunity itself. Another said that when organizers go out into communities, they find that people are thinking holistically about fairness, access, and opportunities. People would tell them, she says:

Our schools are overcrowded, we don’t have counselors. That’s what we need to make fair. And what we need to make fair is the potholes in our streets. The fact that our libraries are closing down. The fact that our parks are run down.
The solution, said several participants, is to frame this as a cradle-to-career conversation:

*When we frame it as, you know, “We really need to think about the whole development of students and children from birth to graduation,” that makes sense. We need to do a better job of not Balkanizing this in saying, “We should spend $25.6 billion more on K–12”; and then somebody else says, “By the way, we need to spend $10 billion more on higher ed.”; and then someone else says, “We need to spend $10 billion more on early childhood.”*

**Finding 7. Stakeholders Need to Increase Coordination, Seek Consensus, and Build Coalitions**

Bringing all of these efforts together—K–12 education, early childhood care and education, higher education, career readiness, and community services—is challenging, which is probably why it has not been done. Said one participant:

*It’s both important and necessary, and also the really hard kind of conversation for policymakers to have because it’s long term and it requires that we think about how we fund everything at once rather than biting off a piece at a time.*

Still, many we interviewed felt like this was the opportunity ahead for California, and the place where the governor or other influencers ought to lead.

Many called on the state to develop a long-term plan or roadmap, one that looks far beyond 2020 and that includes multiple stakeholders and a multifaceted revenue plan. A mix of taxes must be part of this, they insisted, with the burden shared by both the wealthy and the broader public. Said one business leader: “I’d say a tax that spreads the burden is much more likely to win the business community’s support or at least mute their opposition.” Some spoke of the need for a campaign that extends well beyond 2020. Mused one legislative staffer: “Can we try doing a campaign for getting all teachers to the middle class?” Perhaps that is one way to focus the energy, she suggested.

Despite the attention 2020 ballot measures are getting in the media, several people spoke about long-term plans that are already afoot. California Calls, the organizers of the Schools and Communities First initiative, has a long-range plan, said one advocate: “They have had a roadmap since 2001. Split roll is not a one-off, it is part of this larger plan.” Another spoke about the work the CBPC is doing to convene stakeholders in discussions around a 10-year plan for tax and systems reform in California. These efforts are critical, one advocate argued, because they depend on consensus building and deliberate sequencing of reforms. We have to be in this for the long haul and carefully plan not only our next step but also our larger game plan, this advocate said: “Part of the problem is we’re not really good, as a movement, at thinking about sequencing.”
Several people reminded us that comprehensive efforts like this have already been tried. In 2015, California Forward published three reports in a series called “Financing the Future” (California Forward, 2015) that explored opportunities for California to build a stable, equitable revenue system that would support everything from schools to roads to water systems. These reports aimed to trigger conversation and action on these topics. In 2010, the Berggruen Institute’s Think Long Committee for California was established to look at dysfunction in California’s economy. The Committee—which included many influential and public figures, including Eli Broad, Willie Brown, Gray Davis, Robert Hertzberg, and Condoleezza Rice—issued a report that made “proposals that [members] believe[d] will update and modernize the state’s broken system of governance” (Berggruen et al., 2011, p. 3). This work continued through multiple policy committees in the years that followed. Among the proposals was the idea of increasing K–12 and community college funding by $5 billion annually through broadening of the sales tax to include services, in combination with changes to PIT (including eliminating deductions), in exchange for eliminating the Prop 98 maintenance factor. And in 2009, Governor Schwarzenegger’s Commission on the 21st Century Economy proposed a comprehensive set of tax reforms designed to reduce revenue volatility and improve the economy (Commission on the 21st Century Economy, 2009).

Perhaps these prior coordination efforts offer lessons about what should or should not be done moving forward. At minimum, there is an opportunity for stakeholders to reexamine the recommendations of those efforts and identify what is still relevant today.

Some advocates we spoke with felt that change would come through not only coordination on policy but also authentic and broad engagement with communities and voters. By organizing in communities, one explained, we can “engage this voter base, which is predominantly low-income communities, young voters, immigrant women,” in order to “change the demographics of who votes in California” and advance “progressive policies that would have an impact in our communities.”

**Finding 8. More Evidence is Needed**

During each interview, we asked participants what additional research or evidence could help support policymaking, decision-making, and coordination related to funding adequacy. We heard that although the biggest challenges are political, there are also areas in which additional evidence would be helpful. In particular, we heard that research could help establish a common understanding about the needs, options, and potential fiscal impact of various policy solutions—and could also help build consensus. Said one interviewee:

*I don’t know whether research and policy analysis will ever directly drive the discussion, but it plays a role in sort of forming the consensus, and forming the basis of different arguments, and the strength and validity of different arguments from different people.*
The feedback tended to concentrate around three major themes:

1. **Research on policy options.** Some interviewees asked for research on the fiscal effect of various policy proposals, including analysis of how much money could be raised under different tax scenarios. Several also asked for more analysis of California’s existing funding structures, particularly Prop 98, in order to understand how the system writ large could be stabilized and increase revenues to education. The people who shared these comments worried that by layering new taxes onto an already flawed system, California could exacerbate or mask problems and fail to address problems with the state’s core funding infrastructure. Said one legislative staffer:

   *A lot of the proposals that you’ll see, even the ballot initiatives, they don’t look to change the way we fund schools, they just sort of layer it on top. And I don’t know if that’s the best approach. I’d love to have some research to look at whether even foundationally what we’re doing and how we’re funding schools makes sense.*

   Said another:

   *What is the role of Proposition 98 in a world where you really want to focus on adequacy? I think a more thoughtful examination of what would be the role of Proposition 98, if any, in this kind of new system would also be something worth exploring.*

   The participants we spoke with after the onset of COVID-19 also asked for analysis of options for mitigating budget cuts and helping districts weather fiscal crises. For example, they suggested analysts:

   - present options for reducing tax expenditures in order to generate revenues;
   - suggest ways the state could build more effective reserves for schools;
   - weigh the pros and cons of enrollment versus attendance-based funding systems;
   - study the extent to which increased poverty and student needs will put additional pressures on the school system;
   - study the fiscal effect of an increase in the “unduplicated” student population; and
   - present fiscal analysis and policy options for drawing down additional federal funds to support student mental health.

2. **Research on what is working.** Many interview participants said that education funding conversations should be informed by good data on outcomes and effectiveness. Several interviewees asked for more evidence on how the LCFF is working and on which programs and services have proven to be effective in improving student outcomes. Some participants said that this analysis should cover not only K–12 education but also early education, postsecondary education, and other sectors, in order to understand where a significant state investment would
have the greatest impact. Said one researcher and policy expert: “It might be that on the margin, getting kids into better quality preK or early programs would end up having much more pay off than K–12 education.” Finally, some people we spoke to asked for more research on how more funding is translating into better outcomes in other states.

3. Storytelling and case-making. Some interviewees said that more qualitative evidence is needed in the form of stories and case studies. The public and policymakers need to hear positive stories about what is working in schools, they said, in order to want to invest more in California education. To this end, participants suggested that researchers produce more “beating-the-odds” stories. They also said it would be helpful to have more data and proof points demonstrating the economic benefits of education; for example, one person asked for more analyses demonstrating the return on investment of spending on education. Finally, some stakeholders said it would be helpful for advocates to produce communications materials and campaigns to make the case to the public for more funding.

One social justice advocate also encouraged researchers to document how policy decisions are made. “There is a different way that change can happen and needs to happen,” this person said, pointing to the important role community-based partners have played in organizing communities of color, registering voters, and advancing ballot initiatives. “We need to look at the power structures, what funders fund, what the media pays attention to.” If we continue to tell stories from the perspective of the dominant culture, two separate advocates explained, we perpetuate existing power structures and decision-making processes. These have not historically benefitted California’s most vulnerable populations.

Recommendations

This report was designed to surface perceptions from the field about how California could raise more funding for its schools. While it does not seek to present specific recommendations around which taxes should be levied or what other policy reforms should be implemented, we do have recommendations regarding some of the steps that should be taken next.

Recommendation 1. State Leaders Should Seek Additional Federal Revenues to Address Both Immediate and Ongoing Needs

State leaders should loudly demand additional federal coronavirus relief and stimulus dollars in order to maintain education funding levels; fund the increased cost of school and community-based services during the pandemic; and maintain education jobs and programs. Those federal funds and other one-time dollars should be directed primarily to communities and school districts serving low-income and high-need families and students. Such resources will be critical in addressing learning loss and preserving and increasing services to meet heightened
levels of student need. At the same time, state leaders should advocate for additional ongoing federal support for schools, including increases in Title 1 and IDEA funding, to improve educational and economic competitiveness as well as tackle long-standing systemic inequities.

**Recommendation 2. Identify New and Sustainable State and Local Revenue Sources**

Voters will have the opportunity in November 2020 to raise corporate property taxes to market rates in order to invest more in schools and communities. State leaders should support this and similar reforms that make our tax base broader, fairer, and more stable. They should also eliminate tax loopholes and credits that reduce state revenues while exacerbating economic inequalities.

Additionally, while the economic downturn continues, state legislators should fund education well above the Prop 98 minimum guarantee, even if that means using state rainy day funds or state borrowing. School districts should not be forced to bear a disproportionate burden of state cuts or to borrow funds locally when statewide solutions can be found.

**Recommendation 3. State Leaders and Education Stakeholders Should Develop a Master Plan for Education Funding That Covers More Than Just K–12, Particularly Early Education**

It is unlikely that California can significantly improve the stability and level of school funding without state-level leadership. While individual stakeholder groups may achieve success at the ballot box, these wins alone are unlikely to raise enough revenue to solve the broader problem. The governor, legislative leadership, and other state leaders are uniquely positioned to make education funding a priority and to exert influence to ensure progress is made. They could call for legislative hearings, convene task forces, advance legislation, broker compromises among diverse interests, and generally use their positions as a bully pulpit to advance education funding as a priority.

State leaders should join with advocates, business leaders, labor partners, funders, and other essential stakeholders to develop a long-term plan for education funding. The funding plan should include a balanced mix of practical tax policy options, including both state and local taxes. It should include a close examination of the effectiveness and consequences of underlying funding structures like Prop 98. It should address issues of governance and accountability. It should braid funding across K–12 and other areas so that early education, K–12 education, higher education, and potentially other children’s services segments are less siloed from a funding perspective. The plan could begin with alignment between preschool and elementary education—an area in which the current administration has expressed interest but that research has shown to be fragmented in terms of funding sources and also administration, regulation, and more (Koppich & Stipek, 2020).
Recommendation 4. The State Should Strengthen Fiscal Transparency and Analysis so That Stakeholders Understand how Money is Being Used

Good governance should include not only providing schools and communities with adequate funding but also monitoring how that money is spent to ensure that it is used efficiently, equitably, and in ways that produce positive student outcomes. Although California policymakers have sought to expand transparency through the LCAP and other means, stakeholders are still dissatisfied and often confused. Education leaders and policymakers should continue to improve the accessibility of school spending information and should ensure that stakeholders can draw statewide, not only local, insights. During this current crisis, it will be particularly important to know how stimulus dollars and heavily constrained state funds were spent to support students, especially the most vulnerable.

Recommendation 5. Researchers and Policy Analysts Should Examine how to Modernize California’s School Funding Infrastructure

California’s system for distributing funds was overhauled with the LCFF, but that reform did little to address the underlying funding infrastructure. Research could help establish a common understanding about the needs, options, and potential fiscal impact of various policy solutions—and could also help build consensus. It is time to reexamine formulas like Prop 98, which few people fully understand given all the changes that have been made to it over time. Policymakers need to know how California’s funding formulas interact with local and state revenue streams, and the extent to which these protect or compromise adequate and stable funding, particularly during economic downturns.

Conclusion

California is the fifth largest economy in the world and ranks tenth nationally in per-capita tax revenues. After the Great Recession, the state enjoyed a long stretch of economic growth that allowed it to steadily increase education funding. Yet despite California’s wealth and recent investments in education, it was still underinvesting in schools prior to the pandemic-induced recession, and it was also lagging behind other states in K–12 education funding and achievement. Now, schools face budget challenges at the same time as student needs are growing, economic inequality is expanding, and costs continue to rise. As they weather the current storm, state and local leaders must protect education funding and services as best they can. But they must also take a long view, which includes identifying existing and new sources of stable funding. California’s leaders and education stakeholders should come together to create a master plan for education. Such a plan will demand state leadership, coalitions among groups with often divergent interests, a range of tax reform options, and a willingness to reexamine long-entrenched formulas, priorities, and systems.


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Policy Analysis for California Education (PACE)

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1. bringing evidence to bear on the most critical issues facing our state;
2. making research evidence accessible; and
3. leveraging partnership and collaboration to drive system improvement.