Policy Analysis for California Education (PACE)

POLICY BRIEF

CALIFORNIA SCHOOL FINANCE FOR THE 1990s

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This policy brief summarizes a chapter by Allan Odden entitled "California School Finance for the 1990s," California Policy Choices*, University of Southern California, School of Public Administration.*

California's public schools have been trapped in the state's fiscal and political gridlock. Since the 1983 reforms, California has not supported a cohesive education reform strategy. Further, a series of publicly enacted initiatives, including Proposition 13, the Gann Limit and Proposition 98, have severely limited the ability of state policymakers to fund schools adequately and have curtailed the ability of local leaders to add to the education funding pot. Higher-than-projected enrollment growth and the 1991 recession exacerbated the education funding crunch.

Dramatically improving California's elementary and secondary education system will require several new interrelated policy initiatives. California's state and local fiscal structure—including Proposition 13—will need to be overhauled. In addition, a new comprehensive reform agenda needs to be formulated and supported by both the political and educational leadership.

CURRENT CALIFORNIA SCHOOL FINANCE

Total K–12 education funding for the 1990–91 school year in California amounted to $24.9 billion, or $4,743 for each of the 5.3 million students in the state's public schools. Total funding has increased 98.8 percent over the previous 10 years, an increase of $1.2 billion dollars every year on average. Adjusted for inflation, the 1990–91 per-pupil expenditure level measured in 1981–82 constant dollars was $3,191 or 7.0 percent above the 1981–82 amount of $2,981.

Sources of funding for California's public schools have been remarkably stable over the past decade. The state provided about 64 percent of all revenues, local property taxes about 21 percent, federal revenues about 7 percent, and the lottery about 3.5 percent.

Distribution of Education Revenues

California has accomplished a high level of inter-district equity since the 1971 *Serrano v. Priest* court mandate to reduce *wealth-related* expenditure-per-pupil differences to within a $100 band of the statewide average expenditure per pupil. In 1990–91, 95.1 percent of students attended school districts within this band. To accomplish this objective, California established a revenue limit system under which the state determines a fixed spending level for all districts in the state, and finances it with a combination of state and local funds (the level differs for elementary, high school, and unified districts).

Whatever the progress in providing equalization for the base revenue limit, California's school finance structure is unusually complicated. The base revenue limit accounts for barely two-thirds of total revenues per pupil available to students and is subject to literally hundreds of adjustments. In addition, California has more than 70 additional categorical programs, each with a different funding formula.

It is time for California to restructure and redesign its school finance structure, including both the revenue limit and categorical program formulas. Both are unnecessarily complicated, outdated, and, in several instances, unfair. Streamlining the revenue limit would be the first priority for change. Moving to a pupil weighting system under which all students eligible for a categorical program service are given an extra weight reflecting the amount of extra service they need might be the most straightforward

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categorical funding change. The revenue limit formula then could be used to determine total funding by multiplying the revenue limit by the total number of weighted pupils.

Future Education Revenue Needs

Assuming enrollment growth of about 4 percent a year and inflation of about 5 percent, public school revenues will need to increase 9 percent each year just to maintain real, per-pupil funding levels. On average, about $3 billion will be needed each year during the 1990s to cover student increases and inflation. Just covering enrollment growth during the 1990s will require an extra $9.7 billion in current dollars, a hefty 39 percent increase.

Restoring Local Fiscal Control

In California, Proposition 13 not only eliminated real local choice to increase education funding but also made the California property tax one of the most inequitable taxes in the history of this nation. It resulted in average- or low-income households paying much higher property taxes than the rich, and the business community reaping large savings in low property tax bills.

The way out of this fiscal mess—for schools as well as other services—is to revise and reform Proposition 13 while maintaining its two key principles: (1) capping property taxes at 1 percent of market value, and (2) requiring voter approval for property tax increases. Three modifications of Proposition 13 would accomplish these goals.

The first modification would be to change assessed valuation to market value so that over time the property tax burden will be a function of property value. The second is to require the property tax rate to be reduced to a level to maintain the revenues provided in the previous year by accompanying a tax rate rollback. The third change in Proposition 13 would be to allow local voters to increase property taxes with a simple majority vote, a proposal included in a 1991 bill introduced by Senator Gary Hart.

These simple changes in Proposition 13 would have several major advantages. They would maintain the spirit of Proposition 13 by capping the tax rate at 1 percent of property values. They would make the property tax fair by linking property tax burdens to the value of property owned. They would restore the ability of local governments, including school districts, to finance local services, thus reinstating a key and important aspect of local control. Finally, they would relieve the severe strains on the state budget. The state would win, local governments would win, and the people—by having better schools and other local services—would win. If the state also provided a "circuit breaker" program, it could protect low-income families and senior citizens from high property taxes.

SCHOOL FINANCE FOR THE 1990S

While the political and budgetary battles will be fierce just to keep California's schools funded at a constant dollar-per-pupil figure for the rest of this decade, the system also will be buffeted by reform forces, both from within the state and without. There is an emerging consensus in California and nationally on the macro strategy to produce quantum improvements in student learning, such as setting ambitious student outcome goals, developing high-quality curriculum standards, creating new forms of student testing, implementing site-based management, and requiring accountability with rewards and sanctions.

This reform strategy gives rise to the following five school finance-related issues.

1. Link School Finance to Education Goals

A new California school finance challenge for the 1990s is to link the current revenue limit structure to substantive education programs needed to accomplish the ambitious goals of teaching *all* students how to think, solve problems, and communicate.

California already has approved curriculum standards for mathematics, science, social studies, and language arts. These curriculum standards need to be implemented now as part of schoolwide restructuring programs such as those proposed in California's *Caught in the Middle* and the forthcoming reports of the California Elementary and High School Task Forces. The base financial program needs to fund fully such new elementary, middle, and high school programs.

California's revenue limit formula not only needs to be shortened and streamlined, but it needs to be set at a level that will allow these types of school programs to be implemented by all state schools. Since students vary in their educational needs, California's categorical programs should be replaced with a pupil weighting system linked to the revenue limit program.

2. Site-Based Budgeting

A second new California school finance issue for the 1990s derives from movements towards site-based management. With outcome goals set at the top of the system—at the national, state, and district levels—schools which are the service-providing units in the education system need to be given increased implementation autonomy to carry out the responsibility for accomplishing those goals. Taking site decentralization seriously requires site-based budgeting where state school finance policy would stipulate that a fixed percent of the revenue limit be allocated directly to schools as a lump sum or by requiring districts to allocate a fixed percent—or all—of instructional expenditures to schools.

California's policy most closely related to site-based management is the 1991 School-Based Coordination Act designed to encourage schools to make programmatic decisions on the basis of student needs rather than funding source regulations. This program gives participating schools flexibility in their use of state categorical dollars and allows up to eight days of release time for staff development and student advisement activities.

If such school site budgeting were implemented, it would need to be accompanied by school-based fiscal accounting as well in order to audit expenditure and use of funds. Such a set of strategies would move California well along the road toward decentralized management of education resources. Several of these ideas were included in a bill introduced during the 1991 legislative session by Delaine Eastin, chair of the Assembly Education Committee, but the bill was held over for action in 1992.

3. Accountability: Incentives and Sanctions

A sharp-edged accountability system, with real incentives and sanctions driven by student outcomes as several nationwide proposals suggest, is likely to be another component of California school finance in the 1990s. In part, this is an off-shoot of decentralized management.

Nearly all new state incentive programs are outcomes and *school*—not individual teacher—based. School-based incentive plans foster cooperation and collegiality among school staffs to accomplish school-wide student performance objectives. They also could become important elements of a dramatically revised teacher compensation structure (see next section).

California's "Cash for Cap," enacted as part of SB 813, provided small bonus payments for high schools whose seniors increased annual scores on the California Assessment Program (CAP), but was eliminated after four years because of the design flaws, including being linked to a basic skills test on which there was little reason for high school seniors to do well.

South Carolina's school-based incentive program that provided funds to all winning schools to use for education improvement activities in the school was found to be quite effective. Eighty percent of the award was based on improvement in student achievement, 10 percent on student attendance, and another 10 percent on teacher attendance. Schools in low-income areas receive awards as often as schools in higher income areas.

Albert Shanker, president of the American Federation of Teachers, recently proposed a school-based incentive program that would make the school staff into a team focused on achieving the goal of increasing student learning. Shanker's proposal called for a voluntary, nationwide, multi-year school competition which would yield $15,000 for each staff in each winning school.

An additional type of incentive could be regulatory waivers. In 1986, the National Governors Association proposed reducing regulations for high-performing schools. Several states have recently tried different versions of regulatory waivers. Research suggests that "blanket waiver" programs show substantial promise for stimulating school improvement but that "regulation-by-regulation" waiver programs, such as California's School-Based Coordination Program, are less effective.

A full-fledged accountability system not only requires rewards for accomplishing goals but also sanctions for not doing so. Sanctions currently used across the country entail a phased-in takeover of consistently underperforming schools (or school districts) after providing initial technical assistance including planning, staff development, curriculum change, etc. In Kentucky, end-of-the-process sanctions for consistently non-performing schools include teacher dismissal, loss of tenure, and even loss of a teaching (and hopefully an administrative) credential. Except for low-performing students in certain categorical programs, California does not have any "hard-edged" sanction programs in place.

4. Choice

An additional component of California school finance in the 1990s is likely to be school choice. One issue related to school choice is the linkage of choice with site-based management and teacher professional control of schools. Many argue that if wide discretion is given site professionals to implement strategies they craft to accomplish student performance goals, then parents and students need to be given a choice, allowed to select schools on the basis of their preference for education philosophy or the learning styles of their children.

During the past two California legislative sessions, there have been several choice bills introduced, but none has been enacted. Nevertheless, choice is an education policy issue that is gaining greater rather than lesser attention. Policy Analysis for California Education (PACE) concluded from its recent review that California has the necessary school-based information infrastructure to implement a school choice program. California already has enacted a modest school choice program where students can choose to attend the school either in the resident district or the district in which their parents work. Only a small percentage of students have invoked this choice option.

While "only state aid" followed choice students in the earliest state public school choice programs, recently states, including California, have begun to count the child as a pupil in the district attended for the purposes of calculating state general and categorical aid. This policy is the most equitable and simplest way to structure revenue shifts for students who move to an out-of-resident-district school in an inter-district, public school choice program.

While *districts* could be prohibited from spending above the base, *schools* could be given a fiscal option to spend above the base. California could enact a "power-equalized" school-based income tax surcharge where the state would guarantee a per-pupil yield for various income tax surcharge increments approved by parents in each school. This could be a new feature of California school finance that would infuse more local revenues into school financing.

There also is growing interest in "charter" schools, i.e., public schools that receive public funds and are accountable to the public, but not necessarily to a local school district. Minnesota became the first state to enact the charter school concept when, during the 1991 legislative session, it enacted a charter school bill that allows teachers to join together to create a new school that would receive public dollars. California also could enact charter school legislation.

5. Complementary State Policy Roles

Important and complementary state policies are needed to implement the comprehensive, systemic reforms necessary to accomplish the 1990s education goals. Each of these complementary policies, moreover, has finance dimensions.

Student Assessment. A first complementary state policy is to develop new and comprehensive performance-based student assessment programs that emphasize thinking and problem solving, and results for individual students. In late 1991, California enacted a law that over time will create a *performance-based* assessment system that will provide individual student scores in grades 4 (5 for history and science), 8, and 11, with standards calibrated to proficiency levels equal to performance in other countries with which California and the nation compete economically. The costs are much higher than the former paper-and-pencil examinations. The program would cost more than $30 million when fully implemented in the fifth year, compared to the approximate $10 million spent annually to run the old CAP program.

Curriculum Frameworks and Staff Development. The second state policy is development of ambitious state curriculum frameworks accompanied by staff development. Several national professional organizations as well as the California State Department of Education have developed new, thinking-oriented curriculum frameworks that not only outline the school curriculum but also delineate learning outcomes for children. The finance dimension of these new curriculum directions concerns implementation. Research suggests that a critical ingredient to successful implementation over time will be consistent and high-quality professional staff development. California has developed a series of staff development categorical programs that can be powerful agents in stimulating bottom-up professional networks. But most staff development funds across the state are not targeted to implementing the new curriculum.

A more straightforward approach to structurally solidifying a major thrust in staff development would be to use the revenue limit formula and simply stipulate that one percent must be used for professional staff development. While there could be disagreements about whether the funds should be retained at the district or lump-sum budgeted to the school site, such a requirement could permanently build staff development into the ongoing activities of districts and schools.

Controlled Restructuring Experiments. Implementing a thinking skills curriculum might entail dramatic restructuring in how schools are organized, staffed, and managed. California is accelerating the "learning curve" for designing and implementing effective restructured schools by providing both developmental and implementation funds for different restructured schools through the SB 1274 projects. This effort could be augmented by assessment funds for analysts to document the process and the impact of different program designs.

Pre-School. Nearly all studies show that early childhood education programs for poor children improve student academic performance in the basic skills in elementary through high school, decrease failure rates and below-grade-level performance at all grade levels, decrease discipline problems, and improve high school graduation rates. Early childhood education programs can provide long-term returns of four dollars for every one dollar invested. While California has invested heavily in preschool funds, only about 30 percent of eligible students attend a preschool program. Through a combination of federal Head Start and state funds, the remaining 70 percent of three- and four-year-olds from poverty backgrounds can have a preschool experience and more children would be fully ready to learn in elementary school. The costs would approximate $900 million.

Extended-Day Kindergarten. Kindergarten was a full-day program until World War II, when teacher shortages reduced it to a half day. Research syntheses suggest that students from poverty backgrounds who receive a full-day kindergarten program perform better on basic skills activities in the early elementary grades than those who do not. California funds full-day kindergarten by allowing districts to count kindergarten students as full-time students for ADA purposes if they provide a full-day kindergarten program. A constraint many districts face in implementing such a program is shortage of classroom space.

Integrated Children's Non-Education Services. A child's ability to experience success in school depends to a substantial degree on other non-school conditions such as the home environment, health, mental health, and so forth. Yet a growing body of research shows that the structure of delivering non-education services to children is fragmented and increasingly ineffective. Integrated children's services is a policy proposal being recommended across the country so that all, or at least a great variety of, children's non-education services can be provided at one location, such as the school.

Governor Wilson's appointment of Maureen DiMarco as Secretary for Child Development and Education is a signal that he sees education in the broader context of children's policies and services. While the dollars attached to his proposals are slim, primarily because of budget shortfalls, the governor's vision of the state role in improving the overall conditions of children, if implemented, could make California a leader again on these important issues of the 1990s.

TEACHER COMPENSATION

Teacher pay currently constitutes the largest component of California school district budgets. Teachers are paid a beginning salary and earn salary increases for more education and years of experience. California has a mentor teacher program that provides additional pay increments, and some other states have career ladder programs that pay more.

While such a pay structure, treating all teachers the same, seems equitable, it does not pay better teachers more, nor does it link teacher pay to system productivity. Attempts to modify the current method of paying teachers have been tried, and most have failed. Research on productivity improvement in private sector, knowledge production, and service organizations, which are quite similar to schools, shows how a teacher compensation system could be redesigned to foster improved education productivity.

Beginning Salaries

Beginning teacher salaries affect both the quantity and quality of individuals entering the teaching profession. Thus, California's 1983 policy to raise beginning teacher salaries was wise. Over time, California should have a policy target—a benchmark—for beginning teacher salaries. A minimum benchmark would be the average beginning salary for liberal arts graduates (a benchmark already met). A better benchmark might be the average beginning salary of all college graduates, thus making it possible to recruit individuals who are technically prepared in mathematics and science or pursuing graduate professional degrees.

Salary Increments

In education, salary increments are provided to teachers for additional education and training. Research indicates that for knowledge production organizations and organizations in changing environments (nearly all complex organizations), this approach has several disadvantages, such as promoting bureaucratic management, fostering an internal equity focus, failing to encourage continuous new skill development, and making promotion too important.

The 1980s career ladder programs, including California's mentor teacher program, also were pay-for-the-job programs. While often formulated with the intention of developing teachers' professional skills and knowledge, most actually created a hierarchy of jobs and paid according to their supposed level of professional responsibilities, such as developing curriculum, joining committees, or mentoring beginning teachers. A system that moves teachers out of the classroom into quasi-administrative roles and diminishes the status of "regular" classroom teaching seems to be inconsistent with teachers' desire to assume larger organizational responsibilities that result in improving their own classroom effectiveness.

Whereas education is an indirect indicator of knowledge, and experience is an indirect indicator of skills, an alternative strategy is to pay teachers directly for knowledge and skills. In a skill-based pay system, individuals are paid for the number, kind, and depth of knowledge and skills they develop and use. Salary increases are provided for a growing repertoire of skills and knowledge.

This approach is well-suited to professional settings because it emphasizes the continuous upgrading of professionals' skills and knowledge and has been shown to be effective in knowledge industries. Paying the person, i.e., paying for what individuals know and can do, helps the organization actively manage the knowledge and skill acquisition process by motivating and then rewarding individuals for learning specific knowledge and skills.

To use such a pay system, organizations need first to identify the knowledge and skills required to perform those tasks, devise a set of measures and assessments to determine whether an individual has learned and can use the skills, price the skill or specify the pay increment that will be provided for each set of knowledge and skills identified, and tell all individuals what knowledge and skills the organization would like them to learn and be able to use. The base compensation structure would then be comprised of an entry-level wage and pay increments provided for demonstrated performance of knowledge and skills that are key to accomplishing organizational tasks and meeting organizational goals.

A knowledge-based pay system should be tailored to a district's own needs. Several categories might be considered generally by California and districts planning to implement such a structure:

1. *Content knowledge*
2. *Knowledge of how students learn*
3. *Knowledge of pedagogy*
4. *Effective use of pedagogical skills*
5. *Board certification, either from the National Board for Professional teaching Standards, or the National Association of Social Studies Teachers*
6. *Performance assessments skills*
7. *Schoolwide leadership skills*

Other skill domains are possible. A California education system could identify the array of knowledge and skills teachers should concentrate on acquiring, communicate those expectations to teachers, and provide a series of mechanisms, e.g., professional development and peer assistance, to support such knowledge and skill acquisition. No quota should be placed on the amount of knowledge and skills that would qualify for extra pay. Each district could "market price" what it would pay for each set of additional knowledge and skills.

Pay for Performance

Pay for performance is possible in education but must be designed carefully. Individually based incentive and merit pay programs do not work. But bonus payments for *organizational* performance can work and should be included in a compensation structure that seeks to reinforce the attainment of organizational goals as it improves employee motivation, helps build a culture in which the individual cares about and is committed to organizational goals, and helps adjust labor costs to "ability to pay."

Even though traditional profit sharing is not possible in public education, a "customized" version of profit sharing is possible. A system could be devised to provide annual bonuses to staffs in *schools* that produce improvements in student achievement, the primary goal of schools. While there are several design issues associated with school-based incentive programs, the key issue is that this component of teacher compensation is the analog to profit sharing in the private sector, which has been shown across several types of private sector organizations to improve productivity. Further, research has shown that teachers respond positively to economic incentives.

"Gainsharing" combines a bonus plan with participative management and typically uses measures of controllable costs or units of output but not profits, and usually at a subsystem level such as a plant or division. When performance improves, i.e., when unit costs are reduced or when more units are produced during a base period established, the employees in the unit "share" in the "gain."

In education, the subunit would be a school, possibly a department in a secondary school, or a "house" within a restructured middle or high school. In schools, more units of production would mean improvements in student achievement, or unit cost reduction. If teachers in a school could design approaches that reduced costs while maintaining or improving student performance, a gainsharing program could then allow them to share in the costs reduced. If increased student performance also occurred, teachers would benefit from the school bonus based on student performance improvements.

Gainsharing programs are both pay-for-performance plans and organizational development plans, which, by definition, entail participative management, making them "in tune" with current trends of employee involvement. Recent research iinvolving gainsharing in the private sector shows that such programs enhance teamwork, focus on cost savings and improved organizational outcomes, improve efficiency by rapidly adopting new technology and methods, and strengthen unions by focusing on improving employee pay and working conditions.

Gainsharing plans have high saliency for California education. Teamwork and knowledge sharing are characteristic of the most effective schools and the most effective teachers. Schools need to dramatically improve organizational outcomes—student performance—and use resources more effectively. More widespread use of microchip-based technologies would benefit schools by improving both cost structures and organizational effectiveness. Finally, teachers are heavily unionized in California, and any program that improves student performance, reduces costs, increases teacher pay, improves working conditions, and also strengthens unions ought to be considered for implementation.

SUMMARY

California will need to increase public school funding about 60 percent in real, per-pupil terms to have all children ready for school, to fund current and new students, and to provide new programs designed to have all students perform at high proficiency levels in mathematics, science, language arts, history, and geography by the end of the 1990s. To accomplish these goals will require bold political and educational leadership, new state funding, changes in school finance and teacher compensation structures, and probably a change in Proposition 13.

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