FUNDING CALIFORNIA'S SCHOOLS: HOW DO WE ASSURE AN ADEQUATE EDUCATION FOR ALL?

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INTRODUCTION

In January 2003, at the annual superintendents' meeting of the Association of California School Administrators (ACSA), I asked the 250 or so superintendents attending my lecture to indicate whether or not their school districts had a strategic plan describing what they planned to do to ensure that all – or almost all – of the children in their districts would be able to meet California's student performance standards in the next decade. I chose this time frame because it coincided almost perfectly with the requirement of the Federal No Child Left Behind (NCLB) law that all students must meet their state's performance standards by the year 2014. Despite the obvious need for such a plan, not one single superintendent indicated his or her district had such a strategic plan.

When I asked why such plans did not exist, the most common answers centered on the lack of stability in state and consequently school district revenues, and the difficulties of negotiating with teachers organizations. Yet it seems obvious that absent a plan detailing the resources needed to achieve this demanding goal, the only thing that is certain is failure.

Today, California's schools rank 44th in the nation in education spending. According to Education Week (Quality Counts, 2005), per pupil spending for education in California amounted to $6,659 in fiscal year 2001-02 when adjusted for regional cost differences across the states. This figure represented 86.1 percent of the national average of $7,734 per pupil. Worse, only six-tenths of one percent of school children went to school in districts that spent more than the national average. Looking at these figures another way, California only spent 3.5 percent of total taxable resources on education, ranking 39th out of the 51 states and the District of Columbia.

Since the 2001-02 fiscal year, things have only deteriorated for school district funding. The recession of the early part of this decade resulted in dramatic budget deficits for the state and substantial reductions to the expected level of school funding. Following his election as governor, Arnold Schwarzenegger reached an agreement with the education community to suspend the constitutional educational funding guarantees of Proposition 98 for 2004-05 in exchange for a promise to pay back those funds in 2005-06. In his budget message of January 10, 2005, Governor Schwarzenegger indicated that to balance the 2005-06 budget, repayment of those funds would not be possible. Moreover, he threatened to seek voter approval of a constitutional amendment that would weaken the Proposition 98 guarantees if the education community was not willing to go along with these further reductions.

Missing from this discussion is the question of how much money our schools need if they are to succeed in meeting the goal of having all – or almost all – of California's school children meet our state's educational proficiency standards. The purpose of this paper is to provide some background on how California's school funding system wound up in this predicament, and offer some suggestions regarding how the problem can be resolved and what kind of effort will be required.

The answer to the question of how much we need is grounded in a new concept of school finance known as adequacy. Adequacy seeks to estimate the costs of providing an educational program that will enable all – or almost all – children to meet the state's high proficiency standards. In his budget address in January, Governor Schwarzenegger referred repeatedly to the $50 billion we spend on education. Absent from his rhetoric was any sense of how much we really need to insure that the students of California receive the education they deserve. Adequacy offers a way to estimate what that need is, and with that estimate would enable our state's policy makers to develop a system to raise and distribute the funds our schools require. In addition to the need to estimate an adequate level of education spending, this paper provides some thoughts on how the state might approach funding all services for children, and makes recommendations for finding the additional resources needed to adequately fund our schools.

THE HISTORY OF SCHOOL FINANCE: FOCUS ON CALIFORNIA

The history of school finance in the United States during the 20th century can be thought of as having three distinct foci. The first, which represents most of the century, is equity, the second productivity and the third and most recent adequacy. Each is described below, with a discussion of where California falls in terms of each concept.

Equity

The history of California school finance follows that of the country generally. For the bulk of the century, the primary goal was equity which requires the design of state funding systems that mitigate the impact of differential property wealth per pupil across school districts. Designing school finance mechanisms that provide state aid in inverse relationship to the property wealth of school districts helped level the playing field and enabled property poor districts to have more money than would otherwise be available.

In California, the *Serrano* lawsuit, filed in 1968 and litigated into the 1970s, was the first step in transforming the school finance structure. *Serrano* required that all wealth related spending differences between school districts be eliminated, or reduced to no more than $100 per pupil.[1] Today, approximately 97 percent of all California public school children reside in school districts that fall within this narrow spending band when the size and type of district are accounted for.[2] However, in the three decades since this system was put in place, a growing proportion of state funding for education has been provided through categorical programs which are outside of the *Serrano* requirement to reduce wealth related spending differences. Today, something on the order of one-third of state revenues for schools is distributed through these categorical programs. There is considerable evidence that this approach has led to a different, but equally detrimental, set of spending differences. Sonstelie, Brunner and Ardon (2000) showed that this funding system has resulted in substantial inequities in the level of resources available to children across school districts. Further Betts, Ruben and Danenberg (2000) show there are considerable variations in the resources (e.g. teachers, instructional materials, etc.) available to children across the state as well. The result today is a confusing system where there is often little relationship between identified student needs and the targeting of revenues. While it is becoming clear that alternatives to the current system are needed, to date, little has happened in California.

Productivity

In the 1990s considerable emphasis was placed on understanding the relationship between money and student performance. Unfortunately, economists and statisticians have not been able to consistently identify the nature of that relationship and quantify it that make it possible for policy makers to appropriate funds in ways that will insure improved student learning. The reasons for this are as complex as the equations used to estimate the relationship, but boil down to a lack of clarity about the goals of education and insufficient precision in the data and tools available.

While today most would agree that the goals of school are to improve student performance, measuring that solely through standardized tests is controversial. Today's tests don't always do a good job of measuring student reasoning and problem solving skills, and the multiple choice nature of most tests makes it difficult to asses how well children can communicate. Attempts to quantify these more complex schooling outcomes have not been very successful. Moreover, measures of self esteem and good citizenship (also potentially important outcomes of schooling) are harder to measure at the individual student level.

Moreover, 28 states (California included) only collect finance data at the school

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[1] This figure has been adjusted for inflation and today is just over $300 per pupil.

[2] California school districts are organized into elementary (K-8), high school (9-12) and unified (K-12 districts, and further divided into small (less than 101 students for elementary, less than 301 for high school and less than 1,501 students for unified districts) and large districts. The assessment of *Serrano* compliance is determined in these six groups of districts.

district level. While the other 21 collect school level finance data, I have argued elsewhere that until we are able to sort out expenditures on an individual student basis, it is unlikely that we will be able to measure the impact of additional resources on student performance (Picus and Robillard, 2000). Even then the ability to make accurate estimates of the effect of money on performance may be limited by the fact that we generally spend more money on those children with the greatest educational need. Careful controls for previous ability and for the characteristics of individual children will be needed to understand the productivity issue. However, with the emergence of adequacy, alternative approaches to determining how much money is needed have been developed.

Adequacy

Another school finance strategy emerged in the 1990s. School finance adequacy became the most effective approach for challenging state school funding systems following the Kentucky Supreme Court's ruling in 1989 that the Kentucky funding system (and the entire education system) was unconstitutional. The Kentucky court ruled that all children should be able to meet certain minimum standards, and that inadequate resources were available to ensure that was possible. In response, the State Legislature appropriated an additional one billion dollars a year for education and established one of the nation's most extensive testing systems. Widely studied, results suggest that the work in Kentucky has led to improved student performance in the last decade.

The adequacy movement asks a simple question – how much money is needed to ensure that all children – or almost all children – can meet a state's performance standards? The problem is in determining what that amount of money is. Today, there are four approaches for estimating school finance adequacy. They are:

- *Successful districts*: This approach finds school districts that currently meet state standards and uses their costs as an estimate of adequacy.
- *Cost Functions*: Using advanced statistical techniques, analysts estimate the resources required for students to reach a given performance level on a standardized test, controlling for student characteristics such as family income and home language.
- *Professional Judgment*: Panels of educators are brought together to describe the resources they would need in a school to have some assurance that all children could meet the state's performance standards. Once specified, the costs of these resources are estimated to arrive at an estimate of the costs of adequacy.
- *Evidence Based*: This approach relies on current educational research on what works in schools to estimate the resources needed to reach state performance standards and then estimates the costs of those resources.

Estimates of how much is needed to provide the children of a state with an adequate education are estimated through so called adequacy studies. Studies of this type have been conducted in thirty states, and are summarized in the January 2005 Quality Counts issue of *Education Week* (Education Week, 2005). In every instance, the studies have found that current funding levels are inadequate to enable all children to meet the state's educational standards.

Adequacy has been used as the basis for legal challenges to the school funding system in many states, and in all instances has been successful in getting the courts to rule that current funding levels are inadequate. California has its own adequacy law suit, *Williams v. California*. The suit in California was unique in that it seemed to focus mostly on the lack of decent school facilities for many school children, and sought more state oversight into the management of school districts. California is also the only state where the defendants (the state) counter sued claiming that the problem was not inadequate funding, but rather mismanagement by local district management who had access to the same level of funding as other, more successful school districts.

The Williams suit was settled in 2004, with an agreement by the state to spend something on the order of one billion dollars to improve school facilities in the districts with the most severe facility problems, and to provide additional funding in some settings. While this appears on the surface to be a great deal of money, It compares poorly to New York where adequacy studies have recommended spending increases of six to nine billion dollars. These increases are recommended for a state with half as many children as California and one that currently spends nearly 50 percent more per pupil. In reality, the settlement agreed to in the Williams case is nothing short of selling out our children. Adequacy studies in other states have recommended funding increases from ten percent to over 35 percent, making the one billion in California (amounting to approximately two percent of the roughly 50 billion we currently spend) seem paltry.

While California has not conducted an adequacy study, the structure for doing so has been in place for two-and-a-half years. Based on the recommendations of the Task Force on a Master Plan for Education, legislation was passed in 2002 to establish the California Quality Education Commission which was charged with determining what an adequate level of funding for California's schools should be. Members of the Commission were never appointed and nothing has been done to estimate adequacy in California. In his budget the Governor has proposed elimination of the Quality Education Commission.

CALIFORNIA SCHOOL FINANCE TODAY

Resources for Schools

In announcing his proposed budget for 2005-06, Governor Schwarzenegger's initial recommendations left the state in a deficit position, and stepped back from his promise to replace some $2.2 billion in funding for education to fully fund the Proposition 98 funding guarantee. To balance the 2004-05 state budget, the governor asked public schools to accept, for the first time ever, a suspension of the Proposition 98 funding guarantee in exchange for a promise to make it up the next year. As this is written, he has proposed a budget that does not make up that funding and continues to leave the schools with fewer dollars than provided by Proposition 98. And, Schwarzenegger has said that if his proposals are challenged, he will seek voter approval of constitutional amendments that will enable him to make "across the board" cuts in state spending when there is a deficit, and that will weaken the Proposition 98 guarantee in the future.

The heart of the problem for California school finance today is we don't have a clear picture of how much money we need. While the Governor and other policy makers are understandably reluctant to determine what the number is – since it is undoubtedly considerably more than we currently spend – absent a target to strive for, the level of school funding will continue to be determined through political compromises emerging from an increasingly unstable and under funded state revenue system. This problem can only be solved by determining how much we need to adequately fund California's schools. Clearly that figure will be substantially higher than the $52.4 billion proposed in the 2005-06 budget.[3]

The question is how do we get there? NCLB recognized that states needed a dozen or more years to establish systems to enable all children to meet performance standards, there is no reason to expect we can find all the money we need in one year. But it is essential to know what we need and have a plan to get there. Even with that, it is likely that state revenues will fluctuate over time, so the plan for funding needs to accommodate the long term growth and provide for dips and spikes in revenues overtime. Figure 1 provides a simplified "cash flow" analysis of how the state could manage its resources toward the goal of adequate funding. In years when revenues exceed needs, it would be wise to bank funds for future years when state revenues are below identified needs. Similar to many state's "rainy day funds," this concept probably requires substantially more restraint on the part of the Legislature to not spend or return tax receipts to taxpayers in good years than they have exhibited in the past, and requires the education community to similarly allow the funds to be banked, rather than divert them to uses not part of a long term strategic plan. It requires a dramatically different approach to the allocation and use of tax revenues than we have seen in California in recent history.

But where does that money come from? California is one of the wealthiest states in the

[3] The governor's 2005-06 budget identifies $61.1 billion in total K-12 education funding. In addition to the 52.4 billion in Proposition 98 funding, other state resources, and local miscellaneous revenues, the higher figure includes Federal funds and school district debt service payments.

nation. Our average per capita income exceeds the nation's by nearly 7 percent and ranks 12th among the states. Yet our spending on education is similar to states near the bottom of the income rankings. The question is who should pay for our schools. There are two options, neither popular, but both with the potential to resolve this funding issue.

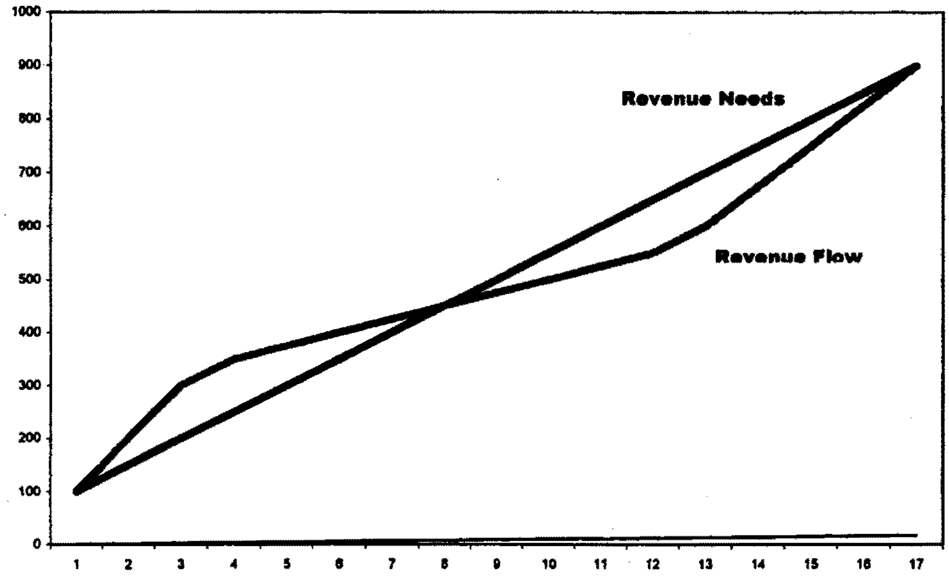

Figure 1: Managing the Flow of Resources over Time

The first is to increase income taxes on Californians in the two highest tax brackets. It is estimated that these citizens (with California taxable incomes exceeding $200,000 for individual returns and over $400,000 for joint returns) will receive nearly $12 billion in tax breaks from the Federal tax cuts. Tapping these tax benefits could go a long way toward funding our schools without increasing the total tax payments of our wealthiest citizens.

Another option is to review and modify Proposition 13. Although even less popular than the previous suggestion, Proposition 13 has hamstrung state and local government for years reducing the revenue potential of all governments. Moreover it has created substantial inequities, not only between homeowners in similar homes, but across classes of property with more of the tax burden being shifted to residential property. While some argue that Proposition 13 is needed to protect our businesses, in reality it only protects existing business, and makes it hard for new firms to build the production facilities they need and to compete with existing firms. Under those circumstances not only does governmental revenue suffer, but the lack of competition hurts all consumers. Finding a fair and reasonable way to increase the revenue potential of property taxes, while insuring state residents don't get taxed out of their homes or businesses is possible – if we are willing to make the sacrifices Governor Schwarzenegger has called for.

Other Options

There are other options for ensuring an adequate education as well. Analyses of adequacy often point out that children have needs that go beyond the public school system's capabilities and responsibilities. Access to good prenatal care, high quality medical and dental facilities, and good preschools can lead to improved school performance for many children, particularly those from low income homes. A recent analysis of the public, and non-profit services available for children and their families in the area surrounding the University of Southern California discovered that there is as much as $12,500 per child available. Combined with a similar amount through the public schools in that area,[4] there is nearly $25,000 per child to provide educational and other social services. It is making sure that these resources reach their intended target, and that the agencies responsible for providing those services coordinate their efforts that is often the problem.

While schools have typically been organized from the "bottom-up" and most other social services from the "top-down," California's highly state controlled school funding system may be an ideal place to begin breaking down the barriers between agencies toward the creation of coordinated educational and social services for all children. This could be accomplished for little or no additional cost.

SUMMARY

Despite the improving economy in California, the state budget remains mired in a deficit. The result of this deficit is lower than expected revenues for public schools. A commitment to turn this funding shortfall around requires better knowledge of how much is really needed. The California Quality Education Commission is the ideal vehicle for making that determination, yet today it seems more likely to be eliminated as part of the governor's efforts to make government more efficient.

It would make more sense to let the Commission determine how much money is required to provide all California school children with an adequate education, and then develop a plan for reaching that goal. Doing so will require the kind of sacrifices Governor Schwarzenegger has called for, but possibly by different groups of citizens.

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[4] When the total all funds budget of LAUSD is divided by its average daily attendance (ADA), the resulting calculation approaches $12,500 per student.