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The Evolution of California's State School Finance System and Implications from Other States

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California has created a system of aligned curriculum and student performance standards but has never integrated its finance system with those reforms. This paper provides a historical overview and critique of California's school finance system. Its central questions include:

1. How has California's current school finance system evolved historically?
2. What are the major flaws in that system, particularly when compared to other states?
3. What salient lessons about school finance reform implementation can be drawn from other states?

Summary of Key Findings

Several events have shaped California's school finance system since the early 1970s when schools received most of their revenue from local property taxes. In 1972 voter demands for property tax relief led to a state plan to freeze the per-pupil amount that each school district could collect for general spending. That became known as a district's "revenue limit."

Concurrently, the landmark *Serrano v. Priest* court case required the state to sever the close link between local assessed property value and total school district spending. The court focused only on general-purpose operating expenditures, ignoring categorical aid and construction funds. In response to the *Serrano* decision, state leaders decided in 1976 to force district equalization by adjusting districts' revenue limits, increasing them faster for low-spending districts so the gap would close over time.

Before the state could equalize spending, however, voters passed Proposition 13 in 1978, drastically cutting local property taxes and school revenues. The state bailed out local school districts and, in what marked a major turning point, assumed primary responsibility for funding schools.

In 1983 the *Serrano* court ruled that the equalization job was done. By then, the state had assumed control of approximately 80% of total school funding, leaving schools vulnerable to the volatility of the state's sales and income-tax revenue streams. In an effort to stabilize school funding, voters passed Proposition 98 in 1988. This measure earmarks a specific portion (about 40%) of the state's General Fund revenues for K–12 schools and community colleges.

Per-pupil revenue limits, which differ for each district, remain the basis for allocating funds to local districts. Piled on top of that are more than 100 state and federal special programs. These categorical aid programs represent about a third of the money Sacramento spends on schools.

California's finance system is constrained by past decisions and disconnected from academic expectations

In California, per-pupil spending equalization has clearly been the driving policy goal. That overriding goal has kept any discussion of regional

Study Methods

This background paper is a critique of school finance in California and a synthesis of several studies of K–12 governance and school finance reform in California and in other states. For historical information about California's school finance system, the author draws on a 2006 *Getting Down to Facts* study completed by Thomas Timar, *Financing K–12 Education in California: A System Overview.* The section comparing school finance reforms in California to those in other states and identifying implications from the implementation of reforms in other states was informed by *Getting Down to Facts* papers prepared by Allen Odden on Kentucky, Arkansas, and Wyoming and by Margaret Goertz on New Jersey. All three of these documents are available at: **www.irepp.net**

IREPP

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Getting Down to Facts

A research project designed to provide California's policymakers and other education stakeholders with comprehensive information about the state's school finance and governance systems, and lay the groundwork for a conversation about needed reforms. The project was made possible by grants from the Bill & Melinda Gates Foundation, the William and Flora Hewlett Foundation, the James Irvine Foundation, and the Stuart Foundation.

This summary was prepared by IREPP.

For the full text of the author's research report and the other studies in this project, see: **www.irepp.net**

For background on California's school finance system, see: **www.californiaschoolfinance.org**

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Charter school funding takes a different approach

In the midst of California's convoluted, complex school finance system sits a charter school finance system that is much easier to understand, more flexible, and less categorical. The system, designed after charter schools were authorized in 1993, provides all charter schools with a uniform amount per pupil and aggregates funding for approximately 44 categorical programs into a "categorical block grant" that schools may spend at their discretion. The amounts vary depending on the age of the school's students, with more money provided as students get older.

cost differences off the state policy agenda. This is in contrast to Florida and Texas, which have developed substantial adjustments for the different geographical costs in their vast states. The drive for per-pupil funding equalization has also not always taken the varying needs of districts and schools into account as they work to help economically disadvantaged students meet state academic standards.

Voter initiatives in California have put the state finance system in a double bind. Proposition 13 caps the local property tax and has virtually eliminated tax increases based on assessed valuation. Other states have enacted variations of Proposition 13, but none has created an education funding system that sets both a *de facto* floor and ceiling on total state and local property tax allocations as does the combination of Proposition 13 and Proposition 98.

Perhaps as a result of these constraints and the centralization of school funding responsibilities at the state level, California has relied more than any other state on categorical programs. This approach began in the mid-1960s as state political leaders began to lose confidence in the ability of local educators to improve results for disadvantaged students. The use of highly prescriptive categorical programs persists in California. On the other hand, states like Florida and Kentucky have opted for a weighted-pupil formula to adjust for different pupil needs combined with greater local flexibility for determining how resources are allocated.

Finance reforms in other states yield instructive comparisons and implementation lessons

Other states have adopted school finance reforms that attempt to align the funding system with state specified education goals. Of particular note are New Jersey, Arkansas, Wyoming, and Kentucky.

New Jersey heavily targets low-income, underperforming districts for additional aid

New Jersey's system reflects state responses to a lawsuit that gradually helped the state focus on pupil attainment. In 1996 New Jersey began to align its finance system with state-specified education goals. The Legislature defined "a thorough" education through 56 Core Curriculum Standards in nine academic content areas, plus five Workplace Readiness Standards. To help students in low-performing districts meet these standards, New Jersey's finance system encompasses components not well-developed in California, such as full-day kindergarten and school-based health and social service programs. Remedial programs and preschool are fully state funded in low-income districts that were part of the original *Abbott v. Burke* school finance lawsuit. In addition, New Jersey's state aid is highly targeted to the 31 districts named in the suit. Those districts receive slightly more than half the state money given to New Jersey's 616 school districts.

In contrast, California policy has never formally acknowledged the linkage between its pupil attainment standards and its school finance system. The California policy debate rarely acknowledges this separation, and the policy approach has been to incrementally change the finance system without examining probable impact on students reaching academic standards.

Spending increases in Arkansas, Wyoming, and Kentucky have done little to change resource allocation patterns

As in New Jersey, lawsuits have stimulated school finance reforms in Arkansas, Wyoming, and Kentucky. In response, all three states increased funding for education. In general, however, the author finds that new state aid in these three states has been allocated by local officials in traditional patterns—a result that experts conclude is unlikely to improve student outcomes dramatically. The experience in Kentucky, Arkansas, and Wyoming suggests that in addition to flexibility and incentives, states may also need to attend to the information needs of local districts to help them focus resources on research-based strategies for improving student achievement.

Author's Conclusions

California's school accountability and school finance systems are both highly centralized and not rationally aligned with each other. A more coherent state finance system designed to provide local flexibility with incentives and capacity-building support aligned to student performance standards could promote greater student achievement.

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