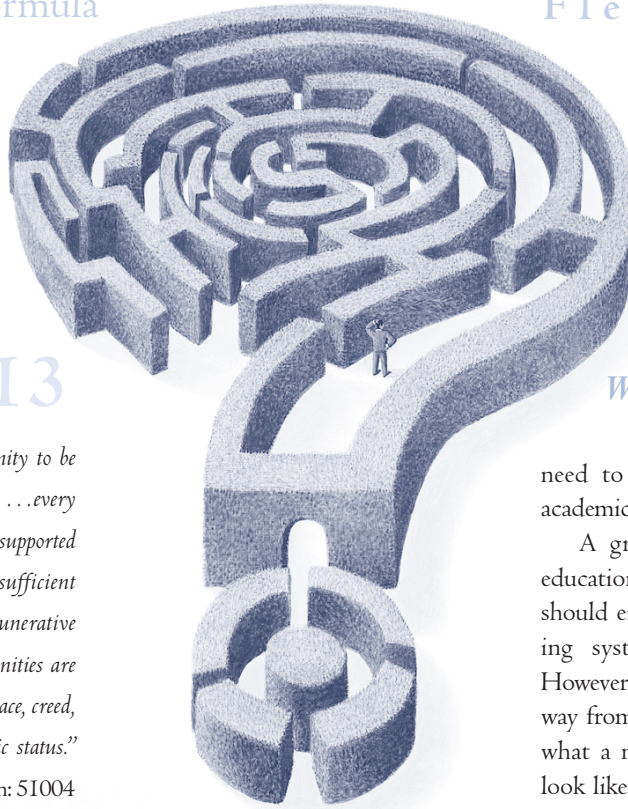


Rethinking How California Funds Its Schools

Weighted Student Formula
Adequacy
Serrano v. Priest
Performance
Categorical Programs
Proposition 13

Flexibility
Fairness
Accountability
Collective Bargaining
Williams v. California



Every student "shall have the opportunity to be prepared to enter the world of work; ... every student who graduates from any state-supported educational institution should have sufficient marketable skills for legitimate remunerative employment; ... and ... such opportunities are a right to be enjoyed without regard to race, creed, color, national origin, sex, or economic status."
—California Education Code Section: 51004

Every young person in California is entitled to the same educational opportunities. Further, state law and a series of court decisions say that providing those opportunities is ultimately the responsibility of state government.

In trying to fulfill that responsibility, state officials in recent years have set demanding new K–12 academic standards for what they expect each student to know and be able to achieve. They have also put in place a system of assessments and benchmarks that hold schools accountable for student performance. What state leaders have not done is re-examine California's complex school finance system in the light of these changes—at least not yet.

A rare combination of events is creating momentum and interest among a growing number of Californians who want to see the school finance system change. Not the least of these people is Gov. Arnold Schwarzenegger, whose 2004–05 state budget proposal calls for education funding reforms. This comes at a time when local schools are feeling desperate as they endure a third year of tight budgets due to the state's continuing fiscal crisis. A lawsuit against the state—charging that some children have been denied their right to basic educational services—may be near resolution. Interest groups are focusing on California's relatively low level of per-pupil funding. And a newly appointed state commission is about to ponder the question: What resources do schools

need to meet the state's demanding academic standards?

A growing number of state and education leaders agree that California should either overhaul its school funding system or start from scratch. However, sharing that opinion is a long way from any kind of consensus about what a new and better system would look like. For one thing, little definitive guidance exists regarding the most effective way for a state to use school funding to support improved student performance. And the size and complexity of California make the prospect of change doubly hard.

One way or another, Californians are likely to take some actions to change the school funding system over the next few years. State lawmakers could move quickly to enact policies that respond to specific interests, or they could take time to grapple with the full range of complex and political issues that must be addressed to fundamentally change California's school funding policies. The public can wait and hope that state policymakers have the wisdom and courage to meaningfully address this important issue, or they can mobilize to exert political pressure for change. Some activists

are considering California's ballot initiative process, if needed, to circumvent an unwilling Legislature.

More money for schools will be difficult to find while the state budget crisis continues. That could give the state time to rethink California's system in a way that will improve the learning environment in all 9,000 of its public schools. The first step is for Californians, including state policymakers, to be clear about what problems they are trying to solve, what funding strategies address those problems, and how the strategies fit together. Lessons from research and the experiences in other states can help inform this work.

In the long run, however, an infusion of additional funds may be an essential ingredient for bringing to fruition any plans for a new finance system. Conversely, without additional funds, major changes in the system may hit political obstacles that are insurmountable.

This report sets out some possible goals for a California school finance system that could better support student performance. It also describes

the key forces that will shape any debate about school finance reform in California and examines those in the context of some important aspects of an effective finance system. In the process, the report provides brief descriptions of the various initiatives now underway in California and also looks at where the state might go from here.

Making money matter for student performance

California is far from alone in needing to examine its approach to funding schools. Throughout the United States, research, political initiatives, and court cases are focused on questions related to school finance. Increasingly, researchers and policymakers are looking at ways to create systems for allocating resources that support and encourage local schools' ability to improve student performance. Such a task, experts say, is extremely challenging.

At the University of Washington's Center for Reinventing Public Education, a multiyear effort called the School Finance Redesign Project is aimed at helping state policymakers, educators, and the public better understand how to make money matter. The project's leaders make a strong case for the need to redesign school finance systems generally. Their work and perspective may hold some valuable lessons for California policymakers:

"Public school finance systems today uniformly fail to support the nation's educational goals regarding greater student performance. In broad terms, we know why: Finance systems determine levels of support based on political bargaining rather than student needs. They focus on inter-district equity but ignore inequities among schools. They all but ignore adequacy. They apply conventional, process-oriented finance mechanisms... to unconventional performance challenges. They account for dollars and they exercise authority over resources centrally rather than at schools. They restrict school-level problem solving."

The project examines how funding can make a difference in school performance. It focuses on ways that finance systems affect the motivation and capacity of individuals and the environment in which they function. It calls for finance mechanisms that encourage students and teachers to perform better, that build their capacity to accomplish performance goals, and that structure the classroom, school, and system to support student performance.

Voters, courts, and lawmakers have shaped California's finance system

Through the State Board of Education, California's Legislature and governor have established the standards of performance expected of California's students. They also determine how much money schools get and how those funds are to be distributed.

A central question is the extent to which these state leaders can use their power over funding to improve the performance of more than 6 million children in about 300,000 separate classrooms. Within the current system, the path money takes from Sacramento to the student is not a direct one.

In California, as in most other states, the law requires that school districts function as the "fiscal agents" for public schools. That means state leaders allocate funds to 982 separate school districts, which in turn decide how to distribute resources to schools and classrooms. School boards and district leaders negotiate with unions to determine how much to pay their teachers and how large to make their classes. They also purchase the textbooks, place the children in the schools, manage the facilities, and decide how extra resources will be distributed.

Districts lose revenue-raising power in the 1970s

Historically, local school districts' control over expenditures was matched by their

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control over revenues. Up until the 1970s, California districts had the power to raise property taxes to pay for school operations and facilities. That created substantial differences in funding from one district to the next. Communities with higher property values were able to support their schools more generously and with less effort (lower tax rates). This resulted in inequalities among districts that were challenged in court beginning in 1968. As a result of the *Serrano v. Priest* lawsuit, which was finally settled in 1976, the state Legislature looked for a way to finance schools that would be more equitable. It set “revenue limits” for school districts and began forcing the equalization of general purpose funds by limiting the increases for high-revenue districts and providing large increases to low-revenue districts. (See the box on the *Serrano* decision for a more detailed explanation.)

While the *Serrano* court case precipitated a major change in the state’s role in school funding, it did not specifically address the revenue-raising ability of local school districts. A more dramatic change came in 1978 when California voters passed Proposition 13. It set a uniform statewide property tax rate, limited the allowable increases, and precluded local school districts from raising property tax rates on their own. It also resulted in a substantial one-time reduction in property tax revenues for schools. School districts—prohibited from increasing their revenues and facing drastic funding cuts—turned to the state. State officials kept districts whole by providing more state funding for schools; but in the process they also took over control of the distribution of local property taxes, effectively becoming the ones in charge of school funding.

State leaders exercise considerable control over funding and operations

Thus in the course of just a few years, the state dramatically changed its

The *Serrano* decision and Proposition 13 left their legacies

Begun in 1968, the *Serrano v. Priest* court case was one of the first lawsuits to challenge the inequities created by the U.S. tradition of using property taxes as the principal source of revenue for public schools. Lawyers for the plaintiffs maintained that the wide discrepancies in school funding that were systematically related to differences in district wealth (property taxes on assessed value per pupil) represented a denial of equal opportunity.

In 1971 the California Supreme Court ruled that education was a “fundamental interest” of the state and remanded the case back to lower courts to determine whether the discrepancies described by the plaintiffs actually existed. Anticipating an outcome that would demand change, state leaders passed Senate Bill (SB) 90 in 1972, creating the “revenue limit” system that put a ceiling on the amount of general purpose money each district could receive. To achieve equalization, the Legislature implemented a sliding scale of increases to revenue limits designed to bring lower-spending districts up to the level of higher-spending ones over time (labeled “leveling up”).

The second case, referred to at the time as *Serrano II*, was settled in 1976. The court ruled that the changes made with SB 90 were not enough. In 1977 the state passed Assembly Bill (AB) 65, which made further changes in the system using a “power equalization” plan for redistributing tax revenue from higher- to lower-wealth districts.

Proposition 13 was passed just nine months later, in June 1978. A reaction to rapid and often dramatic increases in local property taxes at the time, its primary goal was to protect property owners by reducing and stabilizing their tax obligations. Its provisions wiped out 60% of local property tax revenues and therefore invalidated much of AB 65’s financial reform, including power equalization. The Legislature’s “bailout” bill, SB 154, retained the revenue limits but replaced most of the lost property tax dollars with money from the state budget. The total amount of money allocated to schools was cut. High-end districts received smaller increases than low-end districts on a sliding scale. This “squeezing” of the revenue-limit allocations minimized the sudden drain on the state’s budget. AB 8, passed the following summer, continued the revenue limit system, including the squeeze mechanism for granting differential increases to districts based on their revenue limits. In 1983 the court ruled that the equity complaints brought in the *Serrano* case had been satisfied, and the case was officially closed. The decision specifically excluded categorical programs from the equalization formulas.

At that point California was left with a different situation than the *Serrano* plaintiffs had perhaps envisioned. Data from the National Education Association (NEA) indicate that a major change in California’s contribution to public schools occurred following the implementation of revenue limits. In 1972 Californians contributed 5.6% of their personal income to public schools. By 1978—before Proposition 13 took effect—contributions had fallen to 3.8%.

system for funding schools. State leaders became responsible for making sure that the tax effort was roughly equal among districts and for determining the actual amount of funding. This came on the heels of a greater state and

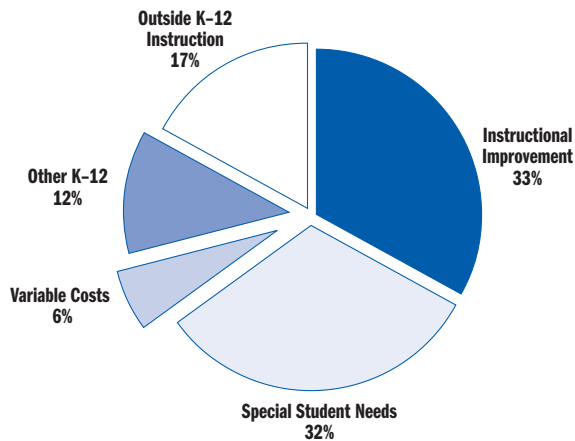
federal activism in schools generated by the War on Poverty in the mid-1960s and the court-required Special Education system to protect the rights of disabled students in 1975. It is not surprising then that state leaders

figure 1 | Distribution of categorical funds by purpose, 2003-04

Categorical funds represent about 38% of the total revenues allocated to K-12 education in 2003-04, including about \$12 billion in state and \$7 billion in federal programs. The pie charts below summarize the proportions of state and federal categorical funding that go toward various purposes. They do not include \$62 million in state and federal grants for charter schools or about \$202 million in miscellaneous state programs that each receive less than \$20 million.

Proportion of state funded programs by purpose

(Includes programs receiving more than \$22 million, which represent 98% of state categorical funds.)



Instructional Improvement: 33%

Includes Class Size Reduction (K-3), School Improvement Program, Summer School/Supplemental Instruction, Instructional Time and Staff Development Reform, High Priority Schools Grant Program, Instructional Materials, Class Size Reduction (Grade 9), Intervention/Underperforming Schools, Student Assessment, Beginning Teacher Support and Assessment, Math and Reading Professional Development, Tobacco Use Prevention Education, Peer Assistance and Review, Partnership Academies, and Dropout Prevention and Recovery.

Special Student Needs: 32%

Includes Special Education, Economic Impact Aid, Child Nutrition, English Language Acquisition Program, Gifted and Talented Education, and Community Day Schools.

Variable Costs: 6%

Includes Pupil Transportation, Deferred Maintenance, and Year-round Education Grants.

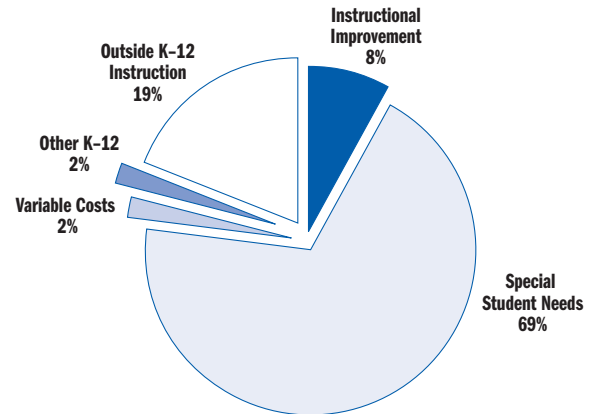
Other K-12: 12%

Includes Targeted Instructional Improvement Grants, Regional Occupational Centers and Programs, Supplemental Grants, and CalSAFE.

Outside K-12 Instruction: 17%

Includes Adult Education and Child Care and Development.

Proportion of federally funded programs by purpose



Instructional Improvement: 8%

Includes ESEA Title II (Improving Teacher and Administrator Quality)*, ESEA Title VI (Assessment Funding)*, and ESEA Title V (Innovative Programs)*.

Special Student Needs: 69%

Includes ESEA Title I (Extra Support for Students Who Live in Poverty)*, Child Nutrition, Special Education, and ESEA Title III (English Learners and Immigrant Students)*.

Variable Costs: 2%

School Renovation Grants Program.

Other K-12: 2%

Vocational Education.

Outside K-12 Instruction: 19%

Includes Child Care and Development programs, ESEA Title IV (21st Century Schools)*, and Adult Education.

*No Child Left Behind (NCLB) programs.

DATA: CALIFORNIA DEPARTMENT OF EDUCATION (CDE)

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became increasingly involved in telling school districts how to spend their allocations. California's school finance system also became increasingly complex

as state policymakers tried to ensure that school districts spent their funds in a manner consistent with state and federal expectations.

The chief strategy state and federal leaders have used to make sure that school districts spend funds "appropriately" has been to earmark funds for specific purposes

or students. Some of these categorical programs—such as Title I, Economic Impact Aid, and Special Education—were created to ensure that a given set of “special needs” students received extra services. The more of these students a district serves, the more funding it receives from these programs. Other programs, such as K–3 Class Size Reduction and staff development days, provide participating school districts with funding as long as they implement a specific strategy state leaders believe will improve instruction. Categorical programs generally are accompanied by regulations on how the funds can be spent and reporting requirements to ensure that districts comply.

Over the years, the proportion of funding that goes to school districts in this fashion has increased to about a third of total funding from all sources, and the sheer number of programs has multiplied as well. Figure I provides a summary of the programs and their general purposes.

Standards-based reform changed many things, but not the finance system

Particularly since 1997, California state leaders have instituted changes aimed at getting schools to focus on student performance, in large part by establishing uniform academic standards and holding individual schools accountable for how well their students are learning them. However, the state overlaid its new system of standards, tests, and interventions on top of the existing finance system. The net result is that while educators are expected to improve student performance and are held responsible for doing so, they have to function within a funding system that was created to constrain local decision making and limit the discretion of school district officials.

Regulations limit local discretion

Responsible for school budgets and held accountable for compliance with

state and federal regulations, district officials in turn often limit the decision-making authority of school site leaders. In addition, collective bargaining agreements are negotiated at the district level and in most cases set out uniform expectations for teacher compensation and working conditions, such as staff meeting times, class sizes, instructional minutes, teacher preparation time, professional development expectations, and evaluation procedures. The larger the district, the more likely it is that these agreements can conflict with the way an individual school’s leadership might want to organize the teaching staff, assignments, and instructional programs.

Business leaders in particular have criticized this lack of school site flexibility for many years. They cite organizational theories and business experience that promote decentralization as a key strategy for improving performance. The Committee for Economic Development (CED)—an independent national research and policy organization made up of business leaders and educators—makes this point in its 2004 report, *Investing in Learning: School Funding Policies to Foster High Performance*.

The report charges that financial accounting and reporting systems focused on districts rather than on individual schools are “obscuring the link between the resources being spent on specific children and those children’s learning and hindering efforts to determine where and how resources might be better spent. Principals not only lack data on their schools’ resources but are seldom given significant control over their budgets, even though they are increasingly being held accountable for the performance of their students. These managers’ ability to reallocate resources to what they believe are more effective uses, and thus do what they are convinced will improve performance, continues to be severely restricted by allocation decisions made at the district, state, and even federal level.”

School funding complexities obscure accountability

In California—with its proliferation of discrete programs and specific regulations—the financial decision-making process is virtually incomprehensible. As a result, it is extraordinarily difficult to hold anyone in the system accountable for the decisions that affect the quality of classroom instruction. If a school does not provide students with an adequate opportunity to learn, teachers and the principal can blame the central office for not providing appropriate resources. School boards and superintendents can, in turn, say the state is either not providing enough funding or has tied their hands regarding how it is spent. State leaders can put the blame back on local leaders, or teachers, calling them incompetent or unscrupulous for not using their resources wisely. And while those responsible pass the blame, many students are left without a decent education and their parents are left with no one to hold accountable.

Thus a major strand in discussions about finance reform in California emphasizes the need to restructure the system the state uses to allocate funds to school districts and thence to schools. Advocates believe that making the system more transparent and providing greater flexibility to local educators could improve the efficient use of funds. Others remain skeptical about the value of local flexibility, or they stress that flexibility must be accompanied by clear lines of accountability and serious consequences for adults in the system who do not live up to their responsibilities.

Some believe such an overhaul of the finance system would be enough to improve academic performance in California. However, others feel equally strongly that simply changing the system is not sufficient. They believe that, regardless of how funds are allocated, California’s public schools need more

money if they are to accomplish what the state and the public expect of them.

The level of education funding raises concerns and issues

For many years, education advocates have bemoaned the inadequacy of school funding in California. They have typically used comparisons with other states as proof that California is not investing a sufficient amount in its K–12 system. The statistics used to make these comparisons—and rank California vis-à-vis other states—come from several sources, each of which gives a slightly different picture:

- The National Education Association (NEA) estimates that California’s expenditures in 2000–01 “per student in fall enrollment” were \$7,018. That placed the state 24th in expenditures and \$278 below the U.S. average.
- The National Center for Education Statistics (NCES) uses a slightly different calculation and comes to a different conclusion. NCES put the “current expenses per pupil” for 2000–01 (based on fall enrollment) at \$6,987 and placed California 25th among the states, \$389 below the U.S. average.
- *Education Week*, in its January 2004 special edition called “Quality Counts,” used yet another approach, adjusting the NCES data based on regional cost of living (as calculated using the NCES Geographic Cost of Education Index). California’s “education spending per student adjusted for regional cost differences” was \$6,258. This placed the state 45th and \$1,118 below the U.S. average.

By all these measures, California lags behind many other states in the amount it spends per pupil. In a 2003 report—*High Expectations, Modest Means*—the Public Policy Institute of California (PPIC) developed a more nuanced analysis of California’s investment in

public schools. PPIC Senior Fellow Jon Sonstelie, one of the report’s lead authors and a professor of economics at University of California–Santa Barbara, summarized that analysis.

Low effort and high salary costs combine to disadvantage California’s students

Sonstelie compares California to the rest of the nation rather than positioning the state against the national average, which includes California. The key comparison, he said, is the total number of K–12 staff per pupil because “schools are principally about human resources.” In 1999–2000 the United States—excluding California—had an average of 124.9 staff for every 1,000 students. California schools had almost 30% fewer, or 88.2 staff for every 1,000 students—a major difference that could seriously disadvantage California’s students.

Sonstelie next explained that California as a state spends, per capita, about 9% more on state and local government than is the case in the other states. But while the state spends more on most areas of government—such as law enforcement, higher education, and social services—it spends less on K–12 education. The PPIC data show that the share of government expenditures that go to education is about 22% in California, while it is 24.6% in other states. In addition, in California a larger portion of the population is school age. For every 100 residents, California has 17.8 students it must pay to educate compared to an average of 16.5 students in the other states. The lower expenditures on public schools combined with the higher number of students means that California spends about 9% less per pupil than the other states.

The second part of Sonstelie’s analysis examines how funds are spent in California schools compared again to all the other states except California. The key difference is that California has the highest-paid educators in the country,

and thus has traded off staffing ratios for salaries. However, Sonstelie notes, “college graduates in California earn more money than college graduates in other states, and most of the personnel in schools are college graduates. We face, in California, higher personnel costs than other states, about 14% higher.”

The combination of lower state investment, more students per capita, and a more expensive labor market has resulted in California’s dramatically lower staffing ratios compared to other states. But comparisons, Sonstelie argues, are not the key to deciding whether the level of education funding is “adequate.” Instead, he urges Californians to look at the expectations the state has established through its academic standards. By those criteria, as measured by the state’s Academic Performance Index (API), some schools in the state are receiving enough funding. Those are the schools that have met the state’s goal of 800 on the API. They also tend to be the schools that serve fewer low-income children. Conversely, the higher the proportion of low-income students in a school, the lower that school’s API tends to be. If California is committed to meeting its standards-based goals, Sonstelie concludes, it may need to invest more than it does now in education and focus that investment on low-income students.

The state invests more in districts that serve disadvantaged students

Data from PPIC indicate that most districts serving high proportions of low-income students already receive more funding than other districts in California, at least as a general rule. (See the box on page 7.) Much of this comes in the form of categorical programs, most notably federal Title I and state Economic Impact Aid, both targeted at disadvantaged children. When statisticians calculate statewide funding averages and compare California to other states, they include those programs,

which on a statewide basis represent about 5% of total funds for schools.

The selective distribution of those funds to districts with low-income students means that those districts are probably closer to the national average, while the districts with few low-income students are even further away in terms of state support. For suburban parents, that makes all the more stark the comparisons to suburban districts in New York or Connecticut where the funding levels often exceed \$12,000 per student, an amount that is double what some California districts receive.

In many higher-income communities in California, parents dip into their own pockets—through fundraising or the passage of parcel taxes—to subsidize their local schools beyond what the state provides. The task of getting parents in those districts to forego state increases in their schools' funding in order to put more support into low-income schools would be, as Sonstelie puts it, “a tough political proposition.” In fact, those parents' continued commitment to and political support of public education in California might hinge on how that proposition is resolved.

Modest means and high expectations are at odds

The data regarding the low level of funding in California schools are compelling, particularly in the context of the high standards the state has set for academic performance. The Fordham Foundation has rated California's standards among the most rigorous in the nation. Further, given the state's current budget situation, additional funding seems nearly impossible without higher taxes of some kind, including perhaps a reconsideration of Proposition 13. There is some indication that momentum around this perspective is building. Early in 2004, for example, the California Teachers Association (CTA) mounted a petition drive for an initiative

Most elementary and unified districts with low-income students receive more revenues

With the caveat that there is much variation from the averages, the Public Policy Institute of California calculated the difference in average total revenues (excluding Special Education) for districts that serve no low-income students versus those that serve 100% low-income students. The data show that while unified and elementary districts on average receive an augmentation for low-income students, the reverse is true for high school districts.

All revenues except Special Education, 2001–02

	Average revenues per pupil	Average augmentation per low-income student
Unified districts	\$6,019	\$1,018
Elementary districts	\$6,108	\$451
High school districts	\$7,093	– \$301

Table adapted from *High Expectations, Modest Means*, copyright 2003, Public Policy Institute of California.

that would generate additional revenues for schools by changing the tax rate for commercial properties. Although CTA decided against putting that proposal on the November 2004 ballot, many observers expect that a similar measure may sooner or later be presented to voters.

Many Californians might applaud schools having additional funds but believe that simply putting more money into the same system would do little to improve student performance. Absent significant changes in how schools do business and account for it, any proposal for more funds is likely to face stiff opposition from the business community and others who want to see more from the schools, especially if they are being asked to pay higher taxes. That “more” includes higher achievement among students generally, with a particular emphasis on California's English learners and its low-income students who are predominantly Hispanic and African American.

It is in part to address these dual issues of funding and effectiveness that school finance experts and state legislatures throughout the country have been developing funding adequacy models over the last few years. This has often

been in response to court mandates. These models attempt to “cost out” an adequate education system in order to answer the question of how much money would be enough for public education to meet its mission and improve the performance of the vast majority of students. The process of creating such a model for California is just beginning.

California officials are trying to estimate how much money is enough

In 2002 state lawmakers authorized the creation of the Quality Education Commission (QEC), which is charged with developing and costing out a “Quality Education Model.” Its core objective is to determine the amount of funding needed to provide California's public school students with an opportunity to meet the high achievement levels set forth in the state's academic standards. This determination is seen as a first step in developing a state funding formula that would provide “adequate” educational services in local communities.

University of Southern California Professor Lawrence Picus has been among the experts developing these

The majority of states have undertaken adequacy studies

According to the Campaign for Fiscal Equity (CFE) at the Advocacy Center for Children's Educational Success with Standards (ACCESS), approximately 30 states have conducted adequacy or costing-out studies "to obtain rationally based, objective information on how to fund public education so that all students have a genuine opportunity to meet the learning standards." In some cases, courts ordered these studies when they deemed a state's funding system to be unfair. Courts became involved in Arizona, Arkansas, New York, Ohio, and Wyoming.

Instead of using the availability of funds to determine education funding levels, the costing-out approach estimates what schools need to educate students to meet high standards. A variety of methods exist to determine these costs, but three are used most frequently: successful schools, professional judgment, and effective strategies. Currently 28 states, including California, have completed or are completing costing-out studies. For more information, go to www.accessednetwork.org and click on "Costing Out Across the Country."

After completing their studies, many states decided they were under funding schools and established higher levels of base funding for an average student. Most states also supplement funding by allocating an additional amount to certain districts based on agreed-upon criteria. These vary but have included district type or size, school grade levels, and the types of students within a district. A weighting formula is often the vehicle for determining funding levels for each child within a district, with the average child designated as "1" and, for example, a Special Education child receiving a weighting of 1.2 or a high school student a weighting of 1.4. Thus, if the district receives \$5,000 for the average student, it receives \$6,000 ($\$5,000 \times 1.2$) for a Special Education student. Each state has handled weights and set the amounts somewhat differently.

models in other states (see the box on this page), and he offers the following definition: "Adequacy requires the provision of sufficient fiscal resources to enable all schools to deploy educational strategies that can educate nearly all their students to the state's proficiency standards."

Implicit in this definition are the assumptions that *all* schools need sufficient resources and that *all* or nearly all students should meet the academic standards the state has articulated.

In California, the QEC is charged with providing the state with a target amount for adequate school funding. By definition this figure will include not only the amount necessary for educating the average student, but also additional funding amounts or weights based on the extra costs for educating English learners, students from low-income families, and those with disabilities.

The commission is likely to develop these estimates based either on professional judgments or on existing evidence regarding the combination of resources a school needs to meet state expectations. Typically, these approaches use the concept of a prototypical school to calculate the number of teachers and other staff needed in that school. The calculations posit an optimum class size and the appropriate number of extra administrative staff, instructional aides, and counselors.

Next, a weighting formula is used to determine the level of extra resources that should go to schools that serve high numbers of special needs students. Central to this approach is the well-supported concept that some students are more expensive to educate. Children who need to learn English require extra help to master the language and keep up

with the academic content they are expected to learn as well. Children who come to school from impoverished home environments are often not as well prepared for school success as their more advantaged peers, particularly those with highly educated parents. They need more support in order to take full advantage of school instruction. They may also lack adequate nutrition and basic health care, making them less able to compete with other students. Students with physical and learning disabilities need extra services based on their individual situations. State and federal laws require local schools to meet those needs.

Based on these assumptions, average salary and benefit levels for staff combined with estimates for non-staff expenses are used to cost out the model. While the model itself represents a reasonable way to organize a school, it is not intended to mandate how every school should be organized. Rather, it gives researchers a way to arrive at a dollar amount they believe has some relationship to academic performance, a difficult assignment at best.

While a fair amount of research attempts to answer the question of "how much is enough," concrete connections between funding and school performance are more elusive. Experts continue to debate whether money makes a difference in school performance, or in what ways it can make a difference. Adequacy models are another step in those discussions meant to help guide the decisions of state leaders who must develop funding policies and want to make them congruent with their expectations for academic achievement.

In California, the assumption is that the adequacy model would represent a target for the funds the state controls, which include local property taxes, state funds, and federal monies. Currently, about 6% of school funds come from revenue sources under local control. The

sources can include such things as rental income, interest, private contributions, and parcel taxes. The amount of money available from these sources varies significantly among districts. As noted earlier, wealthier communities generally can and do raise more local miscellaneous revenues.

While some see the local ability to raise revenues as a vital component for a healthy school funding system, others say it is unfair to allow wealthier communities to supplement their public schools in this way. This issue is likely to be yet another point of contention in California's complicated school finance debate, particularly as long as California school districts do not provide the level of staffing and services available in other states.

The legislation creating the Quality Education Commission called for its work to take a year. Assuming that time frame is met, its findings will not go to the Legislature until spring 2005, well into the development of the 2005–06 state and education budgets. Economists project that California's budget crisis will not be quickly or easily solved and will continue to constrain education funding. This work by the QEC provides a backdrop for other proposals aimed at rethinking more limited aspects of the existing finance system that may also be moving forward. In addition, a possible settlement in the *Williams v. California* lawsuit could force the state to take action of some kind, with or without additional funds. (See page I3 for more on that lawsuit.)

Several strategies aim at improving California's existing funding system

Taken as a whole, California's convoluted school finance system has almost no defenders. But while all those concerned with education may have a part of the system they want to change, state leaders who have attempted to simplify things have consistently met with strong resistance from one or

another education group—or local school district—that fears it might lose funds if the specific change were made. This is one reason many education advocates in California believe that unless the state provides more funds, structural changes to the system will prove to be politically impossible.

As the variety and number of efforts going on throughout the nation illustrate, the task of redesigning a state's school finance system is far from easy. The good news in California is that the discussion seems to at least be starting in earnest. A number of different recommendations are being informally talked about or formally proposed for reforming one facet or another of the system. In his 2004–05 state budget proposal, Schwarzenegger became the latest to call for change. Along with recommending a plan for consolidating state categorical programs, he mentioned the state's complicated process for calculating revenue limits as another target for reform.

It has been widely reported that Secretary for Education Richard Riordan is exploring school finance and management reforms based on the "weighted student formula" concept recommended by author and management Professor William Ouchi. The idea of decentralizing financial decision making to the school level is an underlying theme in Ouchi's proposals. Hanging over the entire discussion is the *Williams v. California* lawsuit, which calls for the state to do a better job of ensuring that all children receive basic educational services. None of these ideas for reforming the system, however, includes suggestions for how to increase funding or directly acknowledges the need to do so.

The state could improve the basic process for distributing general purpose funds to school districts

The foundation for every California school district's funding is its revenue

Legislators authorize a California Quality Education Commission (QEC)

The 13-member Quality Education Commission (QEC) was authorized by the Legislature in 2002 based on a recommendation from the Master Plan for K-16 Education, a legislative effort that includes other recommendations reflected in legislation currently under consideration. The QEC was originally expected to begin its work in July 2003 and complete it a year later. However, the state's budget crisis and gubernatorial recall election both created delays, which finally appear to have been resolved.

To address the lack of state funding, the William & Flora Hewlett Foundation and the Bill & Melinda Gates Foundation in 2003 provided funds to support the QEC's work for one year. The state has formally accepted that offer.

By statute, the commission's 13 members are to include seven appointed by the governor and two each appointed by the superintendent of public instruction, the speaker of the Assembly, and the Senate Rules Committee. As this publication goes to press, Gov. Arnold Schwarzenegger has not yet announced his appointees. The first meeting of the QEC was scheduled to take place in May 2004.

limit. This general purpose funding is based on a per-pupil amount determined for each district individually. The worksheet a district uses to calculate its revenue limit starts with the amount of funding it received per pupil the prior year and then goes through multiple pages of computations, to say nothing of a list of additional accounting schedules that apply to selected districts. Together these calculations to some degree chronicle the adjustments state lawmakers have made to benefit one group of districts and then another over the three decades since the *Serrano* court decision first

figure 2 | Average revenue limits over time show a change in high school support

The data indicate that California has reduced by a substantial amount the extra subsidy for high school education that was originally built into the revenue limit calculations. If the funding differences between types of districts had remained constant, high school districts would on average be receiving about \$1,800 per pupil more than they do today, and unified districts would be receiving almost \$600 more.

Average 2003–04 revenue limits for small districts are as follows: elementary under 101 students, \$5,516; unified districts under 1,501 students, \$5,184; and high school districts under 301 students, \$6,128.

Type of district	Average revenue limit (per pupil) in 2003–04	Difference by district type in 2003–04	Average revenue limit per pupil in 1977–78	Difference by district type in 1977–78	Hypothetical 2003–04 revenue limits if 1977–78 differences still existed
Elementary	\$4,645	100%	\$1,114	100%	\$4,645
Unified	\$4,843	104%	\$1,244	112%	\$5,420
High School	\$5,585	120%	\$1,480	133%	\$7,427

DATA: 2003–04 (AS OF 4/2/04), CALIFORNIA DEPARTMENT OF EDUCATION (CDE) 1977–78, CDE

EDSOURCE 5/04

prompted the creation of revenue limits in 1972. Examples include adjustments for necessary small schools, for the beginning teacher salary program, and even for specific school districts.

Out of these calculations comes a per-pupil amount that ranges from about \$4,400 at the low end to more than \$8,000 in a few exceptional cases at the high end. However, about 98% of students attend school in districts that fall within a much closer range, and the outliers are generally quite small districts.

Some revenue-limit variations were purposely included in the system from its inception. When the state first set revenue limits, the governing principle was that high school students were more expensive to educate than elementary school students, and therefore the state should provide more base revenue for them. Given California's hodgepodge of school district types and sizes—elementary, unified, and high school districts ranging from fewer than 10 to hundreds of thousands of students—the result was a three-tiered system of revenue limits. The most money per pupil went to school districts that served only high school students, the least money to districts that

served only K–8 pupils, and an amount in between to unified (K–12) districts. Then, acknowledging that smaller school districts are more expensive to operate, the state created a second set of revenue limits for small districts of each type. Figure 2 shows current revenue limit averages and also points out that the system's original subsidy for high schools has eroded substantially.

For the most part, district revenue limits were supposed to fall within bands (commonly called *Serrano* bands) that constrained the difference in revenue limit amounts among districts of the same type. Today the allowable difference within each band is about \$350 per student, but there are some exceptions. Data providing the range that falls within the *Serrano* band is not routinely calculated and thus not currently available from the California Department of Education (CDE).

Per-pupil allocation is only a start

Each district's per-pupil allocation, however, is just the first step in determining total funding. The number of students comes next; for revenue limit purposes, what matters is how many

children show up at school rather than how many enroll. State leaders based revenue limits on average daily attendance (ADA) to encourage districts to be diligent about student attendance. In 1998 they eliminated credit for students who were ill and adjusted the revenue limit formulas accordingly. If students do not come to school, districts lose funding. They can do little, however, to reduce expenses because their programs—and particularly the number of teachers—must be planned according to the number of students who enroll.

The general-purpose revenue system includes one additional set of exceptions historically called “basic aid” districts. State officials began referring to these as “excess tax” districts in 2003. For most school districts, revenue limit income comes from local property taxes, to which state funds are added. In about 80 districts, local property taxes equal or exceed what the districts would have received from their revenue limit funding. These districts keep the excess taxes and, up until the 2003–04 school year, also received a constitutionally guaranteed “basic aid”

allocation of \$120 per pupil from the state. Legislators eliminated that allocation in 2003 (saying all districts receive at least that much per pupil in categorical programs) but allowed districts to keep their excess revenue.

In a few cases, in some very small districts, the base revenue amounts are dramatically higher than the state's average revenue limits. In 2001–02 the highest base revenue amount in the state was \$26,175 per pupil for Fort Ross Elementary, a district of 57 students in Sonoma County. Many people argue that the very small number of students served in these districts is insignificant and that the net differences in revenue limits in the majority of districts are within reason. Others believe that all revenue limits should be equalized.

In 2001 legislators passed an equalization plan that has yet to be funded. That plan makes yet another set of adjustments to the current revenue limit calculation process aimed at raising the amounts in the lowest-funded districts. It does not affect the basic aid districts or those with extremely high base revenues.

There may be straightforward ways to simplify the system

Schwarzenegger voiced a more generalized complaint about the entire revenue limit system in his 2004–05 budget proposal: *“The current system, which is largely built on historical practice, is unnecessarily complex and results in significant funding complications among school districts that are difficult for parents, teachers, principals, and the general public to understand and can result in disparate levels of state support between districts.”*

On the face of it, the solution to this problem could be fairly straightforward. The state could use the money now allocated to revenue limits to institute a student-based allocation system that would provide a uniform amount for each student, perhaps with some

differential for grade levels based on the relative costs of education. Differences in district circumstances, such as small school districts, could be addressed by adding some extra funds for a few districts.

This change to the revenue limit system could be done immediately, without changing any other aspect of the funding system. To make sure individual districts are not hurt financially in this type of process, lawmakers could use a “hold harmless” provision that does not reduce funding for anyone but applies increases based on the long-term goal of equalization. Without this type of gradual phasing in or a major increase in funding, some districts would lose substantial amounts of money and would doubtless lobby hard against the idea.

Such a change would also prompt lively debate about how the per-pupil amount should be calculated, including whether high school students should get more, and if so, how much. It could also prompt discussion about which categorical programs might logically be rolled into the limit because many programs already provide funding to most, if not all, districts.

Reforms of other parts of the finance system, particularly categorical programs, have recently received more attention. Implementing them without addressing revenue limits, however, seems ill advised—a little like constructing a building on a shaky and uneven foundation. A plan for a new approach to general purpose funding could be one important outcome from the Quality Education Commission and a critical first step toward more dramatic changes.

The state could ensure sufficient funds for students with special needs

Revenue limits were created to address funding equity in California, but that was equity based on the concept of equal tax effort for local communities

and equal general purpose or base funding for students. Today, the goal of providing all students with a reasonable and fair opportunity to achieve the same academic standards is causing educators and policymakers alike to think of equity differently. Increasingly, it refers to the idea of allocating resources in such a way that students who come to school with disadvantages receive additional support. The goal is for the vast majority of students to leave K–12 schools equally prepared for adult success, or at least having received an equal opportunity to become prepared.

California already supports students with special needs through categorical programs

Almost every California school district already receives some additional funding to educate students from low-income families, those who are English learners, and those with disabilities. These funds, some of which come from the state and some from the federal government, are allocated in the form of categorical programs.

The primary state program that supports low-income and English learner students is Economic Impact Aid (EIA). Districts receive a per-pupil amount set annually based on the number of children they serve in each category. For the purpose of identifying the low-income students, districts count those in the California Work and Responsibility to Kids (CalWORKS) program. They then add the count of English learners, effectively getting twice the funding for any child who falls into both categories. For 2003–04 the minimum funding rate was \$220.78 per identified student.

The federal funds are separated into two separate programs: Title I for low-income students and Title III for English learners. Title I funds go to districts based on the concentration of poverty in the communities they serve.

figure 3 | Estimates of California's current per-pupil allocations based on special needs

The table below looks at the extra funds California provides to support low-income, English learner (EL), and Special Education students. While some of the numbers are estimates at best, they give an approximate indication of the amount California has earmarked in its major programs serving these populations.

Note also that the funding for Special Education students is distributed to districts based on their total student population. The actual expenditures for each individual Special Education student depend on the services the student receives and thus vary drastically.

Categorical Program (source & purpose)	2003–04 Funding	Number of identified students statewide	Amount per identified student
Title I (federal, for services to low-income students)	\$1,999 million	3,006,877 students eligible for free/reduced price meals	\$665
Title III (federal, for language instruc. for EL & immigrant students)	\$443 million	1,599,542 students designated as English learners	\$277
Economic Impact Aid (state, for services to English learners & low-income students)	\$499 million	622,845 students in CalWORKS plus 1,599,543 students designated as English learners	\$221 (minimum funding rate)
Special Education (state & federal, for students with disabilities)	\$2,687 (state) + \$951 (federal) = \$3,638 million (total)	634,746 students	\$5,731

Most districts also participate in other categorical programs that provide services for low-income students, including counseling and instructional support programs. In 67 districts and two county offices of education, the funding also includes Targeted Instructional Improvement Grants (TIIG), which totaled \$738 million statewide in 2003–04. These grants—a consolidation of funding previously provided for desegregation—range from less than a dollar to more than \$2,800 per pupil. Contrary to many people's perception, almost half of the districts that receive TIIG money are below the state average for percent of low-income students. Further, the amount per pupil has little discernible relationship to the characteristics of the student population in each district. Among the state's 12 largest school districts—those with more than 50,000 in enrollment—Santa Ana, Garden Grove, Elk Grove, and San Juan do not receive these funds.

DATA: CALIFORNIA DEPARTMENT OF EDUCATION (CDE)

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Districts then allocate funds to schools based largely on set formulas that depend on the proportion of students in a school that are identified as low income. For this purpose, districts have some discretion over the identification method they use. They can count them based on CalWORKS, the school lunch program, census data, Medicaid eligibility, or some composite of these measures.

The variations between the state and federal systems—and the overlap between low-income and English learner students—can make it challenging to determine precisely how much extra support is allocated for each

student. But statewide estimates provide some perspective. Figure 3, which shows one approach to this calculation, indicates that California districts receive about \$886 in additional funds per eligible low-income student plus another \$498 for each English learner.

For Special Education students, the statewide average of \$5,731 masks dramatic differences because student disabilities cover a wide range, thus requiring very different levels of extra service for a given student. At the extremes, a severely autistic child might require full-time placement in a private residential facility that costs tens of thousands of dollars per year, while a

pupil with mild learning disabilities might receive two hours of extra instruction weekly from a resource specialist.

Estimates on how much is needed vary

In concept, a weighted student formula requires first agreeing on the appropriate level of supplemental funding for a given category of students. Then the same per-pupil amount would go to each school district—and theoretically to each school—for every student who fits the category. In California, one scenario might involve simply reallocating the funds provided through the major categorical programs mentioned above that are already supposed to go

to schools based on the pupils they serve. But districts vary in their approach to this. They also vary in the funds they receive from a number of other categoricals.

Experts disagree about precisely how much extra should be provided for these special needs students. Work done on funding adequacy and weighted student formulas elsewhere reveals substantial variation. The Annenberg Institute for School Reform reports, for example, that Cincinnati schools assigned a pupil weighting of 1.05 for students in poverty while Houston received a state-determined weighting of 1.20 for them. Houston also gave a weight of 1.10 for bilingual students compared to 1.056 in Milwaukee and 1.48 for English learners (ESL) students in Cincinnati. Gifted students receive a weight of 1.12 in Texas and 1.29 in Cincinnati. Weighting for Special Education students varies even more.

Ultimately, the determination of funding weights for various types of students is more than an analytical exercise. It involves intense and sometimes highly charged political discussions about which special student needs warrant additional support and what the level of that support ought to be.

Given that such a large portion of the funds for helping disadvantaged students comes from federal sources, any scheme the state develops will also have to comply with federal regulations. Some observers also worry that attaching extra funds to specific categories of students will serve as an incentive for local school districts to inappropriately label students in order to receive the funds.

But perhaps the thorniest question for California relates to what happens to the funds once school districts receive them. How are the resources allocated to school sites and are they being used as intended to provide extra support to disadvantaged students?

Special Education presents challenges

Special Education, with a combined state and federal allocation of more than \$3.6 billion, is the largest categorical program. Federal law requires states to provide special services to children with disabilities and creates procedural rights for parents and children. State law in California specifies that each district must provide free, appropriate education to all qualifying individuals, ages infancy through 21, who live within district boundaries. Each special needs child has an Individualized Education Program (IEP) and is to be placed in the “least restrictive environment” that can meet his or her educational needs.

As of 1998–99 Special Education funding is based on the total number of students enrolled in a district rather than on the number of Special Education students and the services they receive. Money is allocated by regional SELPAs (Special Education Local Planning Areas) to districts and programs serving eligible students. About 11% of students in California receive Special Education services each year. Approximately two-thirds of those students attend regular classes, receiving some extra services or accommodations based on their disabilities. The other third receives instruction outside of regular classes or schools, usually because of severe disabilities. County offices of education often run programs for these students. A very small number of students require placement in private institutions, which can be extremely expensive.

In trying to plan for and control expenditures, school districts are sometimes unexpectedly affected by the need to accommodate a student (or students) whose IEP calls for very expensive services or placements. Failure to provide such services is illegal. To the extent that federal and state funds do not cover the costs involved, school districts must encroach on their general operating budgets to do so. In some instances, such encroachments cause serious financial problems, particularly in small districts where a single family moving in could create this situation. In other states, one strategy used for addressing this problem is the creation of “insurance-type funds,” which pay for these high-cost students and effectively spread the financial risk related to these placements across the state as a whole.

The state could do more to ensure that districts distribute resources equitably among schools

Almost every school district in California receives some extra funding meant to help the disadvantaged students they serve, yet those funds may not always get to the schools those students attend. And even when the funds do follow the students, schools may not use them well.

Disparities in services at the school level are at the heart of Williams

In 2000 attorneys filed suit against the state of California on behalf of 97 students, charging that their schools did not provide the resources needed for a basic education. The *Williams v. California* lawsuit brought to light a phenomenon that many researchers say is common not

only in California, but also throughout the country. Within a single school district, particularly a large urban district, some schools have unsafe or unhealthy buildings, outdated and insufficient textbooks, and a high number of uncredentialed teachers while other schools are properly maintained, well-supplied, and staffed with qualified people.

These disparities in school-level resources often correspond with students’ economic status, and economic status often corresponds with ethnicity. Those students who need the highest level of educational services may end up receiving the lowest level. Data from the state’s accountability system, for example, indicate that schools with the highest proportions of low-income students, English learners, and Hispanic

figure 4 Among California districts, the diversity in enrollment and number of schools is substantial

		Total	Median	Range (smallest to largest)
All Districts	Number of Schools	9,008	5	1 school to 694
	Student Enrollment	6,173,418	1,795	9 students to 746,852
Elementary	Number of Schools	2,409	2	1 school to 43
	Student Enrollment	1,246,893	598	9 students to 28,179
Unified	Number of Schools	6,018	10	1 school to 694
	Student Enrollment	4,321,097	5,310	27 students to 746,546
High	Number of Schools	581	5	1 school to 28
	Student Enrollment	588,591	3,404	134 students to 37,878

Note: These figures do not include California Youth Authority schools or schools in State Special or County Office of Education districts.

DATA: CALIFORNIA DEPARTMENT OF EDUCATION (CDE)

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and African American students are also the schools most likely to have inexperienced and uncredentialed teachers.

Although the state does not collect data on facilities and textbooks at the school level, documents filed with the courts on behalf of the *Williams* plaintiffs point to other evidence. For example, they note that in 1999 about 240 schools in the state operated on a multitrack year-round schedule that met state requirements for instructional minutes by lengthening the school day and shortening the academic school year to as few as 163 days instead of the 180 normally called for by law. These schools overwhelmingly serve Hispanic students and also have a disproportionately high percentage of English learners. Data from teacher surveys also showed that teachers in schools with high concentrations of at-risk students were substantially more likely to report textbook shortages.

Many people believe that inequities in resources are not only unfair, but also contribute to the huge achievement gaps among various student subgroups in the

state. The concerns increase in light of the current expectation that all students reach high academic standards or suffer high-stakes consequences if they do not.

The *Williams* lawsuit says the state is responsible for these resource inequities, based largely on previous court rulings at the state and federal level. However, state leaders do not decide what resources individual school sites receive from their districts. In fact, the state counter-sued based on this argument.

The process by which funds and resources are distributed to individual schools varies substantially among California's 982 school districts. About 23% of districts have only one school, making their allocation system rather straightforward. On the other end of the spectrum are large urban school districts such as Los Angeles Unified, which has 694 schools and 11 subdistricts. Even tracing their site-level funding decisions can be a challenge, to say nothing of generalizing about their effectiveness. In between these two extremes are an assortment of elemen-

tary, unified, and high school districts of every size and shape. (See Figure 4.)

In *First Steps to a Level Playing Field*, leaders from an Annenberg Institute task force on urban school districts describe the traditional approach districts take in allocating resources to schools. Every school gets some staff regardless of size, such as the school principal. Every school also gets a certain number of staff members, particularly teachers, based on the number of students enrolled, as well as textbooks and supplies. Schools also get additional resources that vary based on differences in the age, size, or efficiency of the school building. The allocation of all these resources tends to be based on established districtwide formulas. Some schools then receive additional staff positions or funding to support special programs of various types.

Beginning in January 2002 California districts were to allocate the funds for a large number of these programs based on each school's "Single Plan for Student Achievement." Schools that participate in any state or federal programs included in the state's "consolidated application" process must develop a school plan. (See the box on page 15 for a list of these programs.) The plans, which are developed and approved by school site councils, must include the "proposed expenditure of funds allocated to the school through the consolidated application." The school district governing board reviews and approves the plan. The State Board of Education, in turn, approves the district's consolidated application, which is then used to distribute categorical funds to districts. Charter schools and county offices of education also use this process. (See an upcoming EdSource publication on charter schools, due to be released in June 2004.)

Student-based budgeting is one approach to change

Increasingly, education reformers are focused on making sure that both

general purpose and targeted categorical funds follow the student all the way to the school site. This is often what people mean when they talk about “weighted student formula” or “student-based budgeting.” In *Making Schools Work*, UCLA management Professor William Ouchi describes how this budgeting process has been used in a few large urban school districts to distribute funding among schools more fairly, empower school site leaders, and in the process, improve student performance. In all the cases Ouchi cites in the book, the key was the process school districts used to distribute funds rather than any action taken at the state level.

Much of the attention around this type of district funding reform has been targeted at urban districts. The Annenberg Institute’s “School Communities That Work” task force published a guide entitled *Assessing Inequities in School Funding within Districts*. This tool walks school district leaders through a series of calculations intended to help them discover hidden funding inequities. Central to these calculations is a weighted index that allows comparison of funding levels across schools while accounting for differences in student populations. A key point in the guide is that district officials are often honestly surprised by the differences they discover. Becoming aware of these inadvertent inequities can be the first step in addressing them.

Researchers look at teacher assignment

One of the most difficult issues in equalizing resources for schools involves the assignment of teachers. University of Washington researchers Marguerite Roza and Paul T. Hill focus on this subject in a 2003 paper entitled *How Within-District Spending Inequities Help Some Schools to Fail*. Acknowledging that low-performing, high-poverty inner city schools are more difficult places to work and that teachers have little incen-

tive for taking those assignments, the authors say:

“It is therefore not surprising that teachers with enough seniority to make choices seek the positions in the more advantaged schools. Struggling schools are left with no means to lure the most experienced teachers, particularly those with good reputations who can readily find jobs elsewhere in the district. Poor schools are often left with the low-paid rookies, many of [whom] will transfer to other schools once they’ve gained some experience.”

In most districts, this phenomenon gets coupled with a teacher assignment and budget reporting process based on students per teacher and average teacher salaries. The vast majority of districts do not calculate school-level expenditures using actual salaries and benefits paid to individuals. Thus a school with 20 inexperienced, low-salary teachers shows up as receiving the same resources as a school with 20 teachers that command twice the salary. Add to that the fact that the former is likely to be the school with the most disadvan-

taged students and the extent of the inequities starts to become clear.

Teacher-assignment processes in California are within the scope of collective bargaining and thus negotiated at the district level. Typically, teachers with seniority are given first choice when openings are available at a school. In many cases, district officials, school principals, and existing staff at a site have little influence over who teaches there.

Roza and Hill go on to describe how state and federal regulations for providing additional funds based on student characteristics do not question this salary averaging, and in the process can even exacerbate inequalities. They recommend that districts, at a minimum, change their accounting practices to make resource allocation transparent, “tracking real dollar spending on a per-pupil basis, using real teacher salaries, not averages.”

Their proposal goes further, however, recommending state policies

These state and federal categorical programs are included in the “consolidated application”

Schools that receive funding from any of these programs must have a schoolsite council that develops and approves a Single Plan for Student Achievement.

State programs

- Peer Assistance and Review Program for Teachers
- Economic Impact Aid (State Compensatory Education and English Learner programs)
- Miller-Unruh Special Reading Program
- School Improvement Program
- School Safety and Violence Prevention
- Tenth Grade Counseling
- Tobacco Use Prevention Education Program

Federal programs (No Child Left Behind)

- Title I (Part A: Schoolwide, Targeted Assistance, and Neglected programs; Part D: Delinquent Program and Capital Expenses)
- Title II (Part A: Preparing, Training and Recruiting High Quality Teachers and Principals; Part D: Technology Education)
- Title III (Language Instruction for Limited English Proficient Students)
- Title IV (Safe and Drug-Free Schools and Communities)
- Title V (Innovative Strategies)

that could also address this area of school district practice. *“If states made it clear that dollars were generated by children, and should follow children to the schools in which they enroll, they could then demand that districts report real-dollar per-pupil funding, and explain any situations in which dollars intended for poor or disadvantaged students are spent instead on others.”* By comparison, California’s current fiscal reporting requirements do not require school-level reporting at all.

One way to evaluate resource allocations could be an “opportunity to learn” index

An alternative proposal that would create site-level reporting of resources, but not dollars per se, is commonly called an “opportunity to learn” index. The basic idea is that some measure of the resources available at a school—including qualified teaching staff, books and other supplies, and safe facilities—should be included in public accountability reporting alongside performance measures.

In the 2003–04 legislative session, state Sen. John Vasconcellos is sponsoring a bill that would establish as part of the state’s accountability system an Opportunities for Teaching and Learning (OTL) Index. The index would measure these opportunities “as evidenced by access to high quality learning resources, conditions, and opportunities, based on standards that specify what all schools should have available for instruction and support.” The bill specifies that the superintendent of public instruction would determine which indicators to use for this purpose, but that the indicators would have to include the number of credentialed teachers, availability of textbooks, physical condition of the site, overcrowding, availability of counseling services, and at high schools the adequacy of course offerings. All of these would be measured and reported

at the school level. Legislation establishing such an index was passed by lawmakers in 2003 but vetoed by former Gov. Gray Davis, who said he was reluctant to add mechanisms that would complicate state education policy and could distract parents, students, and teachers from the state’s existing accountability system.

The *Williams* lawsuit may force California to grapple with the issue of within-district inequities. As this publication goes to press, discussions are underway regarding a possible settlement. Absent an agreement, the case is now scheduled to go to trial in the fall of 2004. If the plaintiffs prevail, the case may lead to new policies in California aimed at these inequities. Absent such a resolution, the issues raised in the case could still help frame an important discussion about how to use school finance and resource allocations to address student performance issues, particularly at the site level.

For the most part, proposals for addressing within-district inequities are aimed squarely at large urban school districts. As is so often the case in California, applying them to all districts in the state, with their varied circumstances, could have unintended consequences. For this reason, many experts on education policy recommend that any important change in a state’s funding system first be implemented as a pilot that can be evaluated. This type of cautious approach gives educators and policymakers a chance to test their theories, discover and address implementation challenges, and make improvements to policy before they make sweeping changes that are difficult or impossible to reverse.

The state could work to balance local flexibility and state oversight

In education circles in California, much of the critique of the school finance system is directed to the problem that it

has become so complicated that almost no one understands it. The result is a lack of transparency regarding how the system works. The administrative complexities can make it difficult for those who manage the finances to see the implications of their allocation decisions or explain them. And many stakeholders—including parents, the media, teachers and principals, business people, and community leaders—are unable to discern the lines of control over expenditure decisions. When things are managed badly, or when student performance fails to improve, the public does not know whether the responsibility lies with teachers, school principals, district officials, or state leaders.

Accountability is a major goal of the current system

The irony is that accountability has been one objective throughout the creation of the existing system. Many categorical programs were created to limit local discretion in specific spending decisions. The state’s continued inertia around categorical reform comes, at least to some extent, from a profound distrust that most local districts will “do right” if left on their own. Part of that distrust involves concerns that funds not earmarked for specific purposes will be considered fair game during salary negotiations and end up being used to increase salaries and benefits for employees. In addition, thanks to a 1979 voter initiative, the state Constitution requires the Legislature to provide funds whenever it “mandates a new program or higher level of service on any local government” (California Constitution, Article XIII B, Section 6). That requirement has been one reason categorical programs have proliferated in the last 25 years.

California’s system of academic standards, however, opens up the possibility of giving local educators

greater flexibility over their operational decisions while holding them accountable for performance. The state's actions to outline what should be taught, establish standards for how well students should perform, and adopt universally applied measures of that performance are seen as the building blocks for that kind of accountability. Some go so far as to say that the results are really what matter and schools should be given the greatest possible flexibility as long as they then take responsibility for improving student achievement.

California's proposed Master Plan for K–16 Education, for example, states as its goal a school finance system that achieves a balance between accountability on one hand and local flexibility on the other. It assumes that schools will be held accountable for meeting student performance goals set by the state. The plan says:

“The state would focus clearly on the academic achievement goals it wanted for all students and the resources necessary to achieve those goals, but would clearly understand that there is no single ‘best way’ to achieve those goals. We would therefore dramatically reduce state reliance on categorical allocation of funds. Rather, we would ensure that all education institutions had the base of funding determined to be adequate to achieve the goals established for them, and allow them to locally determine how best to use those funds to achieve the learner outcomes we expect.”

Some advocates and researchers support financial incentives

Some advocates and researchers, including the Committee for Economic Development (CED), believe that financial incentives are integral to effective school accountability. California's accountability efforts originally incorporated this idea by rewarding schools that met their API targets with extra money for the schools as a whole and for their staff members personally, partic-

Business leaders propose a variety of salary incentives aimed at teacher accountability

In its statement *Investing In Learning*, the national Committee for Economic Development (CED) states that:

“Teachers (and other educators), like virtually all other professionals, should be evaluated on how well they perform on the job. Some part of their pay should reflect this performance. Good teachers should be rewarded financially; ineffective teachers who are unable to improve should not only see poor performance reflected in their pay but ultimately should be removed from the classroom.”

Adding that they believe pay-for-performance is a very important tool for motivating and retaining good teachers, the authors also acknowledge that teaching is not like business and that it presents special circumstances.

The authors note that the term “performance pay” actually encompasses a variety of compensation strategies, such as group versus individual rewards and permanent raises versus one-time bonuses. Each of these strategies has presented challenges in the past that need to be acknowledged and addressed. Performance pay can also reward different aspects of performance. One approach is to tie rewards to student test results or other outcomes. Another is based on teacher knowledge or skills. Yet another strategy involves providing salary premiums for teachers in hard-to-find disciplines, most notably math and science.

The committee emphasizes another point that may help garner more support for its perspective in education circles: Performance pay will cost more than current teacher salaries. “Business leaders and others who support wider use of pay-for-performance plans in schools must also be prepared to support the costs necessary to implement and sustain them,” the authors stated. www.ced.org

ularly teachers. The state discontinued those incentives after a short time due to budget constraints.

The CED and other business leaders put even greater stock in the power of creating salary schedules based at least in part on teacher performance. Some states and local school districts, most recently the Denver Public Schools, are experimenting with ways to incorporate performance incentives into the teacher salary schedule. California state law gives school districts the flexibility to negotiate with their unions “regarding payment of additional compensation based upon criteria other than years of training and years of experience.” Passed in 1996, these provisions of Senate Bill 98 made possible the development of pay-for-performance approaches in individual school districts.

Consolidating categoricals has been an ongoing debate

On the other hand, the state has debated long and hard the issue of too many categorical programs, but with little to show for it. In 1993 the Legislative Analyst's Office (LAO) recommended that the state consolidate its multitude of categorical programs into a smaller number of block grants. A decade later, the LAO was still making essentially the same recommendation. In the intervening years, other state leaders made proposals to the same end, yet the number of categorical programs continued to increase as long as new funds were available. Another bill recommending a block-granting approach has been introduced in the 2004 legislative session.

Schwarzenegger, in his 2004–05 Budget Proposal, put forward his own recommendation to provide spending

flexibility for funds currently allocated in 22 categorical programs, totaling about \$2 billion. The proposal is for the funds to be added to district revenue limits based on the prior allocations. The amounts for each district vary to a greater or lesser extent, depending on the specific program. The administration chose programs that were not highly restrictive or targeted at special needs students, but have had stable funding levels. Examples, with proposed funding levels for 2004–05, include:

- Home-to-School Transportation (\$520 million);
- School Improvement Program (\$396 million);
- Supplemental Grants (\$162 million);
- Targeted Instructional Improvement Grants (\$759 million);
- Instructional Materials (\$175 million);
- Staff Development Days (\$236 million); and
- Multitrack Year Round Education (\$84 million).

The state laws, policies, and requirements related to these programs would remain in the Education Code.

● | To Learn More

- Redesigning School Finance Project at the Center for Reinventing Public Education: www.crpe.org
- Annenberg Institute's School Communities that Work project: www.schoolcommunities.org
- Public Policy Institute of California: www.pplic.org
- Information on the *Williams v. California* lawsuit: www.decentsschools.org
- Information about costing-out studies nationwide from the Advocacy Center for Children's Educational Success with Standards (ACCESS): www.accessednetwork.org
- For a more extensive bibliography online, go to: www.edsource.org/pub_abs_rethink.cfm
- For EdSource publications on this topic, go to www.edsource.org and click on publications. Look for *How Much Is Enough?* (4/00), "Weighted Student Formula" Concept Enlivens School Finance Debate (5/04), and *Building Political Will to Reform California's School Finance System* (4/04).

The funding framework given to the Quality Education Commission by the Legislature recommends that the state limit categorical programs to three types. The first is programs based on "a limited set of differential costs, primarily geographic in nature, that are not under the control or influence of school districts." The second is programs based on student characteristics that clearly call for additional services, with the added recommendation that those encompass only Special Education, English learner, and low-income students. The third category of programs would be identified as "initiatives" with the clear intent that they be limited in duration and either function as pilots to evaluate new programs prior to statewide implementation or meet immediate and temporary needs.

These ideas about local flexibility run headlong into the state's responsibility for assuring that all children receive an appropriate education. The *Williams* lawsuit contends that the state needs to have a formal process for overseeing the distribution of resources between districts and schools. Historically that has been categorical programs. The "opportunity to learn" index described earlier is seen as an alternative or additional strategy that would focus both state and local attention on school districts' spending decisions and improve accountability without mandating how such a large portion of the funding is spent.

What should California do to improve its school funding system?

The complexities, inconsistencies, and inequities of California's school funding system are legion and legendary. Repeated attempts to fix one part of the system or another have generally ended in political gridlock. The Schwarzenegger administration has made a public commitment to try "reaching consensus on a less complex and disparate approach." Time will tell whether this latest attempt succeeds.

In dealing with the numerous technicalities of the state's funding approach, Californians need to keep sight of one straightforward goal—improving student achievement. Money and its allocation affect that goal by either promoting or inhibiting the creation of school environments that build student and educator capacity and motivate them to improve performance. To that end, three guiding principles seem most important if the state is to fundamentally redesign its system: striving for funding adequacy and fairness, balancing flexibility and accountability, and keeping the system as simple and transparent as possible.

Strive for fairness and adequacy

In the late 1990s California's state leaders raised expectations for school and student performance. According to many observers, the state now has the highest K–12 academic content standards in the country. A serious and compelling question is whether schools in this state have the resources they need to have a reasonable chance of meeting those goals. The Quality Education Commission may at least provide a long-range target for California. An unwillingness or inability on the part of California's policymakers or voters to make that level of investment may call into question whether the state's goals are realistic.

To meet its student-performance goals, the state must also make sure that an appropriate and fair share of the resources are being invested in the education of the state's English learners, low-income students, and students with disabilities. An extra investment in those students may be necessary if they are to have a fair opportunity to achieve at the high level the state has established as its standard.

Creating a roadmap for these twin goals of adequacy and fairness must first address the funds state leaders allocate to school districts. How much does it cost

to provide the necessary educational services for the average student to reach the state's proficiency goals? Does that answer vary based on students' ages or where they live in the state? Further, how much more does it cost to educate a child if he needs more than an average level of services to meet the same expectations? And what are the realistic limits to what the public is willing to support in this regard?

Second, Californians need to consider the extent to which current teacher assignment and budgeting policies in school districts inadvertently perpetuate student underachievement among disadvantaged students. Is there sufficient political will to take on these tough issues that affect collective bargaining rights and teacher satisfaction? And do the solutions lie in state policy changes or local action, perhaps including financial incentives?

Finally, what is fair to communities that want to and can contribute to support their children's schools? If the state has provided adequate basic educational opportunities for all students, then have "equal funding" issues been sufficiently addressed? Should more meaningful options for local revenue-raising ability, such as a 55% vote on parcel taxes, be instituted even if that might mean schools in wealthy communities would have resources others would not?

Balance flexibility and accountability

Given that no single approach to organizing a school or delivering instruction has been proven to work to improve all students' performance, allowing local educators a measure of flexibility is widely acknowledged as important. They need the chance to use their best professional judgment about what will meet the needs of their students—as long as the standards are set and educators are held accountable if they fail to meet them.

Most recently, policymakers have begun debating the merits of radically decentralizing the control of schools

and school budgets in order to improve their effectiveness. Central to this notion is the idea of personal and professional accountability for those who manage the schools, particularly school principals. While these ideas relate to the school funding system, they also raise a host of issues beyond the scope of this report, such as principals' capacity to handle these responsibilities. Germane to this discussion, however, is the fact that whether or not the system is decentralized, the state remains responsible for the educational opportunities its schools offer to every student individually and to all students collectively. It must balance that responsibility against any notions of local flexibility.

One strategy for balancing flexibility and accountability involves strengthening the ability of both state officials and the general public to judge the performance of public education down to the local school level. With its Academic Performance Index, California has taken steps to provide the public with a clear picture of student performance at its schools, at least as measured on statewide tests. An opportunity to learn index offers one way to bring the same level of transparency to the questions of whether a school has the resources it needs to provide a solid education and if those resources are being used wisely.

Other systems of accountability may also be necessary, however, before state officials and the public would feel comfortable giving local schools more flexibility. Many believe that, to be effective, the consequences for not performing well have to fall clearly and personally on the adults in the system. Would Californians extend such consequences to include fewer job protections for educators on one hand and more lucrative, permanent salary incentives on the other? Is the creation of market-based incentives—such as schools of choice and vouchers—a logical extension of this thinking? What alternatives from this

Websites increase the transparency of financial decisions

Technology is making it easier for people to see how districts allocate their funds, the students they serve, and the results they get.

A new national data service slated for completion in the fall of 2004 will merge demographic, performance, and financial data for California school districts. Created by Standard and Poor's, the School Evaluation Services website (www.sp-ses.com) includes a "Performance Cost Index" that rates a school district's "Return on Resources." Reports for three states were available on the site in April 2004.

A new "pop trend" feature on the Education Data Partnership website (www.ed-data.k12.ca.us) enables the public to see how district revenues and expenditures, teacher salaries, student demographics, and Academic Performance Index (API) scores have changed over time. In addition, the comparison reports on the site allow users to compare districts and schools based on a wide choice of criteria.

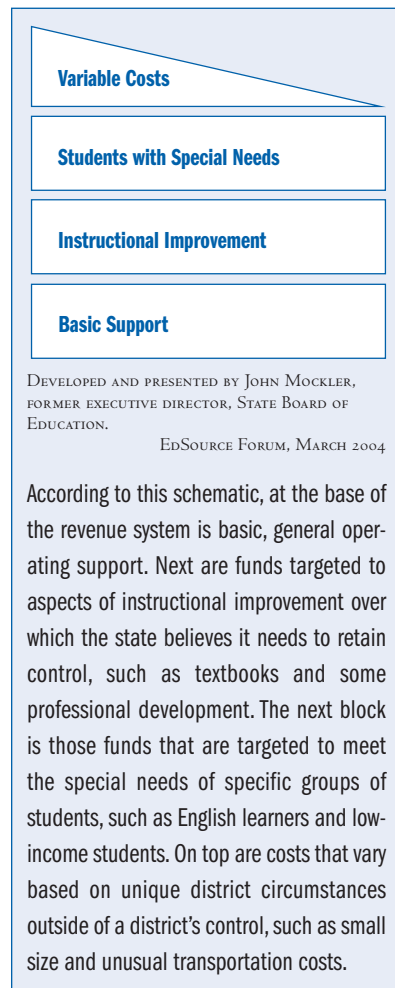
diverse list would do the most to build the capacity of educators and motivate them to improve their performance?

Keep it simple and transparent

As researchers and policymakers consider various options for redesigning all or part of California's school finance system, one lesson from the current situation should stand out. The complexity of the system does not serve the public's interests or enhance the quality of education. A system that is simple and transparent—from the state to the district and from the district to the school—would enable the general public to understand how much money their local schools receive, how they spend it, and who to hold responsible

for those decisions. It would also make it easier for policymakers to evaluate the impact various investments have on student performance and adjust school expenditures accordingly. And absent that clarity—including an effective system for tracking and reporting that information—how will Californians know what any new investment in education has accomplished?

The diagram below provides a simple representation of the components of an education funding system. Grouping allocations into these general categories provides an organizing principle for understanding what current state allocations are and how to change them. It may also help finance reformers think about which types of funding should and should not be earmarked.

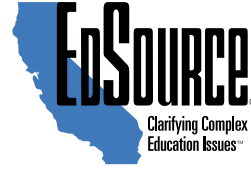


Decide on revolution or evolution

“Blow the whole thing up and start over” is a commonly heard and only slightly facetious piece of advice regarding California’s school finance system. Those who have tried to tinker with the Gordian knot of existing formulas and regulations are often the ones who throw up their hands and recommend that finance reformers just start with a clean piece of paper. Doing this would require that some group—perhaps the Quality Education Commission, the Legislature, or the public through an initiative—develop the plan and muster sufficient political support to make it law. In many states, this has only occurred because of a court order.

At one level the idea of revolution is appealing, but those who have seen the results of the last finance revolution, begun with the *Serrano v. Priest* court decision, worry about unforeseen and unintended consequences. A more gradual approach would be to reform the various components of the existing system, perhaps piloting some ideas like block-grant categorical programs to test their effect. Or the state could let some selected districts operate under a completely revamped finance and accountability system—such as one that includes decentralization of decision making to the school level—to see what is possible and where the pitfalls are. However, state leaders have tried similar evolutionary ideas before with little support from the field and nominal success.

Will this time be different? Are Californians who care about public schools convinced that the school funding system is getting in the way of school improvement? Assuming they are, the next step is for them to find enough common ground among their competing interests so they can agree on what a new system might look like and how this state should go about creating it. ■■



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