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ABSTRACT

The purpose of this paper is to describe the current fiscal picture of education in California and provide insight into the issues facing policymakers as they attempt to resolve the complex and difficult budgetary issues facing this state. The paper is divided into four sections. The first describes the current fiscal issues in California school finance. It includes a brief historical perspective to help set the context and describe the interactions of the political and economic factors that impact the current discussions about California school finance. The second section offers a perspective on the future of educational finance in California, focusing on demographic and revenue trends. This section describes the structural deficit currently facing the state and how it will affect available resources for education for the remainder of the 1990s. The third section offers a brief perspective on a number of related and important issues facing policymakers as they deal with the issues outlined in sections 1 and 2. Finally, the last section of this paper offers some conclusions and policy recommendations regarding the allocation and distribution of public resources to education in California. (RR)

An Update on California School Finance 1992-93: What Does the Future Hold?

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AN UPDATE ON CALIFORNIA SCHOOL FINANCE 1992-93: WHAT DOES THE FUTURE HOLD?

By

Lawrence O. Picus

As California enters the 1990s, prospects for large gains in educational revenues during the upcoming decade are bleak. The reasons for this include voter imposed tax and spending limitations, the continuing effects of the economic recession, the state's heavy reliance on state funds for the support of schools, and the growing demands of other public service sectors on what are increasingly becoming scarce public revenues. At the same time, California's schools anticipate enrollment growth of over 200,000 students each year of the 1990s. Many of these students will arrive at school unprepared. Over 25% will come from families with incomes below the poverty level, and nearly 20% will speak little or no English (Guthrie, et. al, 1991).

As the 1992 Legislature wrestles with the state budget for the upcoming fiscal year, it must make a number of difficult decisions that will impact the availability of school resources for many years to come. The decline in state revenues due the the lingering recession has wreaked havoc with Proposition 98's minimum funding guarantee for education. At the same time, the Legislature must decide how revenues available for schools are distributed, and whether funds will be devoted to general education assistance, or be provided through the plethora of categorical grant programs currently supported through state funds.

The purpose of this paper is to describe the current fiscal picture of education in the Golden State, and provide insight into the issues facing policymakers as they attempt to resolve the complex and difficult budgetary issues facing the state in this election year. The paper is divided into four sections. The first describes the current fiscal issues in California School Finance. This section will include a brief historical perspective to help set the context, and describe the interactions of the political and economic factors that impact the current discussions about California school finance. The second section offers a perspective on the future of educational finance in California, focusing on demographic and revenue trends. This section will describe the structural deficit currently facing the state and describe how it will affect available resources for education for the remainder of the 1990s. The third section will offer a brief perspective on a number of related and important issues facing policymakers as they deal with the issues outlined in sections one and two. Finally, the last section of this paper will offer some conclusions and policy recommendations regarding the allocation and distribution of public resources to education in California.

CALIFORNIA SCHOOL FINANCE TODAY

Governor Pete Wilson's 1992-93 proposed budget projects total K-12 educational spending of $29.297 billion. This figure includes an appropriation of $18.173 billion from the state's general fund, over $6 billion in local property taxes, $485 million in Lottery funds, $2.011 billion in federal funds, and $2.3 billion from other local sources including interest income, developer fees, cafeteria revenues, revenues from the sale of property and supplies and other revenues (Legislative Analyst, 1992). Figure 1 provides a breakdown of revenue sources for California schools for the ten year period 1983-84 to 1992-93.

Figure 2 offers a graphical depiction of how the relative share of each of these revenue sources has changed over that time frame.

This spending amounts to $5,115 per student in Average Daily Attendance (ADA) across the state. As figure 3 shows, current spending per ADA has increased by nearly $2,000 since 1983-94, a cumulative increase of 60.5%. However, when the figures are adjusted to account for inflation, a very different picture emerges. The last column of figure 3 shows funding per ADA in constant 1983-84 dollars. As those data show, per pupil funding in California grew from $3,186 in 1983-84, to a high of $3,708 in 1988-89. Growth in real per pupil spending stalled the following year, remaining at the same level. However, beginning in 1990-91, spending for California's school children has steadily declined to the 1992-93 budgeted level of $3,525 per ADA.

To fully understand how this situation developed, a brief history of California school finance is necessary.[1] The current status of California school finance can be traced to three watershed events of the last twenty years:

1. The *Serrano v. Priest* legal challenge to California's school finance system,

2. Passage of Proposition 13's property tax limitation, and

3. Voter approval of Proposition 98's minimum funding guarantee for education.

Following a very brief history of school finance in California before *Serrano* each of these three events is described.

California School Finance Before *Serrano*

The early history of California school finance is one of shifting responsibilities between the state and local school districts. Originally, over 3,000 school districts were established, each responsible for at least one-third of their operating budget. Over time, there was a repeating pattern of state support decreasing and reliance on local property taxes increasing. At a number of critical points, constitutional amendments increased the state's share of the total and implemented other reforms aimed at improving the system. These other reforms included creating uniform property assessment practices, school district consolidation and equalization through the use of a foundation program. A more detailed discussion of this historical period can be found in Picus (1991).

Serrano

On August 30, 1971, the California Supreme Court handed down a ruling in the *Serrano v. Priest* case, which has affected every major change in California's school finance structure since then. The suit alleged that there were "substantial disparities" in per-pupil spending among the school districts in California, and that "therefore substantial disparities in the quality and extent . . . of educational opportunities . . . are perpetuated among the several school districts of the state". The plaintiffs argued that education was a fundamental interest of the state, and therefore was subject to strict judicial scrutiny. "Strict scrutiny" prohibits states from making distinctions among citizens on the basis of a "suspect classification" in the exercise of a fundamental right or the provision of a fundamental interest.[2]

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[1] A more extensive history of California school finance can be found in Picus (1991).
[2] John Serrano, Jr. et al. v. Ivy Baker Priest, et al., L.A. 29820 (Super. Ct. No. 938254, 30 August 1971).

The *Serrano* case resulte ' 'ı a number of legal rulings over a long period of time. In general, the outcome of thes ·· ·ings include the following:

1. The original $100 spending band should be adjusted for inflation since the original decision was issued. Thus, for 1990-91 the band equals $268 per ADA.

2. Compliance may be established using separate bands for each type of school district (large and small elementary, high school, and unified).

3. The measurement of equalization should be based on the percentage of state-wide ADA rather than the percentage of school districts within the band.

4. The definition of general education expenditures should be limited to base revenue limit funding, thus excluding special needs categorical programs.

There were a number of legislative responses to the *Serrano* ruling. The most important thing to emerge from the efforts to meet the *Serrano* requirements was the development of school district revenue limits. Revenue limits were created by the legislature for each of the state's 1,028 school districts. A district's revenue limit was defined as the total amount of general purpose revenue it received in an earlier year. From that point forward, the legislature, not local school districts determined how much general revenue each school district was entitled to by establishing each district's revenue limit. To improve equalization, a squeeze factor was developed. Using this approach, districts with high revenue limits were given smaller percentage increases in their revenue limits than were districts with low revenue limits. Although the squeeze factor would have eventually reduced spending disparities. The judge in *Serrano* ruled that the time it would take to do so was too long. As a result, Assembly Bill 65 was passed by the legislature in 1977. AB 65 included a number of provisions designed to improve the equity of the California school finance system.

AB 65 was to take effect in 1978-79, but before it could be implemented, California's voters intervened by passing Proposition 13. Proposition 13's property tax reduction combined with the passage of state "bail-out" legislation created a *de facto* state state property tax system, and rendered AB 65 obsolete.

The Effect of Proposition 13

On June 6, 1978, California voters approved the Jarvis-Gann tax limitation initiative, Proposition 13. An amendment to the state constitution, Proposition 13's major provisions include:

1. Taxes on residential, commercial and business property are limited to one percent of 1975-76 assessed market value.

2. Property tax assessment increases are limited to no more than two percent a year.

3. Property can be reappraised at current market value when it is sold, ownership is transferred, or newly constructed.

4. State or local governments are prohibited from passing new property taxes.[3]

[3]This provision was modified by Proposition 49 in 1986 which allows local jurisdictions to levy *ad valorem* taxes to repay general obligation bonds subject to two-thirds voter approval.

5. A two-thirds vote of the people residing in a jurisdiction is required for imposition of special taxes.

6. A two-thirds vote of the legislature is required for changes in state taxes.

The legislature faced two major hurdles following the passage of Proposition 13. The first was to replace the nearly $7 billion in property taxes that local governments would loose, and the second was to develop a new, long term funding system for the state. In the three weeks between the passage and implementation of Proposition 13's requirements, the legislature passed Senate Bill 154, known as the "bailout." This legislation assured that each school district would have at least 85 to 91 percent of the total revenue it would have received under AB 65.

The long term solution, crafted after SB 154 was implemented created the basic structure still used to fund schools today in California. Under AB 8, each district's general aid from the state represents the difference between its revenue limit and the amount of money it is allocated from local property tax collections. Property taxes are collected by the county and, as determined by the legislature, distributed to taxing jurisdictions within the county in proportion to their share of total property tax collections in the county in 1977-78, the year before Proposition 13 took effect. Thus, if a school district with a revenue limit of $3,000 per ADA receives $1,000 per ADA in property tax collections, it will receive $2,000 per ADA in general state assistance.

The result of these changes was to give control over local school district spending to the state. From that point forward, a district's revenue was tied to the fiscal fortunes of the state, and the possibility of raising local supplemental funds eliminated. The picture was further clouded in 1979 when California voters approved Proposition 4, know as the Gann spending limit. Gann limited the increase in state spending to the amount expended the previous year, adjusted for the growth in population and inflation. Revenues exceeding the Gann spending limitation must be returned to the taxpayers.

Over time, despite the implementation of a state lottery, one third of which receipts were to be devoted to K-14 education, the share of the state budget devoted to education appeared to decline. In addition, members of the education community argued that the Gann spending limitation further restrained the total growth of state spending, which also had a depressing impact on revenues available for education. As a result, supporters of increased funding for schools proposed that a fixed proportion of the state's general fund budget be devoted to education. In June 1988, the voters enacted Proposition 98, which accomplished that goal.

Proposition 98

Proposition 98, a voter approved initiative, modified the California Constitution to provide a minimum funding guarantee for K-14 education. The measure contained three major provision, two directly related to school finance and one dealing with accountability. These three provision are:

1. A minimum funding guarantee for schools

2. Allocation of funds when state revenues exceed the Gann spending limit

3. School accountability report cards

The core of Proposition 98 is the minimum funding guarantee that is determined on the basis of one of three tests (Legislative Analyst, 1991b). As originally passed, funding for K-14 (K-12 and the community colleges)[4] was based on the greater of:

Test 1. The percentage of state general fund tax revenues devoted to education in 1986-87. This amounts to just over 40 percent of the general fund.

Test 2. The amount of revenue devoted to K-14 education the previous year adjusted for growth in enrollment and the growth in California per-capita personal income.

Proposition 111, passed in 1990, added a third test to the determination of revenue of K-14 education:

Test 3. In years when the growth in state revenues is very low, funding for K-14 education is based on total funding for the previous year, adjusted for enrollment growth and the growth in general fund revenues per capita, plus 0.5 percent of the prior year level. This test is only operative in years when the general fund revenue growth per capita is more than 0.5 percent below growth in per capita personal income. In addition, to ensure that K-14 education is treated no worse than any other general fund supported program, Proposition 111 requires that the increase in per-pupil K-14 funding cannot be less than the increase in per-capita expenditures for all other general fund supported programs (Legislative Analyst, 1991b). Finally, Test 3 also requires that a "maintenance factor" be established so that the reduction created by using Test 3 is returned to the schools in future years.

One other change made by Proposition 111 protects the rest of the budget from one-time "spikes" in general fund revenue. In any year in which the guarantee is determined by Test 1, and the Test 1 funding level exceeds the Test 2 level by more than 1.5 percent of general fund revenues, the excess amount is not considered part of the base for purposes of calculating the next year's guarantee.

When the legislature passed the 1990-91 state budget in July of 1990, it approved a Proposition 98 funding level of $17.1 billion. This was based on the assumption that the minimum funding guarantee would be based on Test 2, and total general fund revenues would be $41.4 billion. Under Test 2, funding for K-14 education amounted to 41.3 percent of general fund revenue. However, when then Governor George Deukmejian signed the 1990-91 Budget Act, he reduced the appropriation for education to $16.7 billion, a reduction of $446 million. This meant that $446 million of additional state aid still had to be appropriated to meet the $17.1 billion Proposition 98 minimum funding level (Goldfinger, 1992).

As a result of the recession, state revenues did not meet expectations, and by January 1991, there was a $2.3 billion decline in revenue. This shifted the Proposition 98 funding guarantee from test 2 to test 3, effectively wiping out the $446 million "owed" to education. Worse, by May 1991, the continuing decline in state revenues, combined with a decline in ADA growth state-wide caused the Test 3 funding guarantee to drop to $15.3 billion, a total of $1.4 billion less than had already been appropriated for K-14 education for 1990-91.

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[4]In implementing Proposition 98 for the 1989-90 school year, the Legislature agreed that the funding guarantee would be split 89 percent for K-12 and 11 percent for community colleges. This division has been adhered to since.

As the budget debate for fiscal year 1991-92 began, Governor Wilson proposed the suspension of Proposition 98, and an appropriation of $16.8 billion, or $1.6 billion less than the minimum funding guarantee of $18.4 billion. However, before a major fight over the suspension of Proposition 98 erupted between the legislature and the governor, a compromise was reached that solved the problem. The solution hinged on the $1.4 billion excess appropriation for 1990-91. What the legislature did, was consider $134 million of that amount as a payment to schools to fully fund the Proposition 98 commitment for 1989-90. The remaining 1.233 billion of the excess payment was "loaned" to school districts for 1990-91 with the assumption that it would be paid back in 1991-92 through reduced state appropriations. Thus, to meet the Proposition 98 funding guarantee of $18.4 billion, the state appropriated the $1.2 billion loan "repayment" from local school districts and another $17.2 billion in state aid, only $422 million more than Governor Wilson had originally proposed in his budget (Goldfinger, 1992).

One advantage of not suspending Proposition 98 in 1991-92 is that the minimum funding guarantee will be built off of the full $18.4 billion in state aid in 1991-92, and not the $17.2 billion that was actually appropriated (unless, of course, Proposition 98 is suspended for 1992-93). Recall that the test 2 funding level uses the state aid calculation of the previous year as its base and adjusts it for increased enrollments and inflation. As the present time, the governor's proposed budget contains a similar proposal for 1992-93. The lingering impact of the recession has reduced estimated state revenues for 1991-92 by $2.8 billion. As a result, the minimum funding guarantee has declined by $183 million (Legislative Analyst, 1992). As before, the governor has proposed treating this $183 million as a loan to school districts, to be repaid through a reduced 1992-93 appropriation. If there are no further reductions in the revenue estimates when the May revise is released, it is likely that the budget figures in figure 1 will be a reasonably accurate picture of the final appropriation.

The problem, however, is that the outlook for state revenues is grim. Even if there is no further reduction in estimated state revenues for 1992-93, the state faces a substantial structural deficit in future years unless action is taken soon to either reduce spending or increase revenues. These problems and their impact on school funds are discussed below.

THE FUTURE OF EDUCATIONAL FINANCE IN CALIFORNIA

In July 1991, the Legislature was forced to raise taxes by over $7 billion and reduce spending by a similar amount to close a $14.3 billion gap in the 1991-92 budget. Because the recession has lasted longer than anticipated in the budget's revenue estimates, if no action is taken, the Legislative Analyst (1992) estimates that the state will end the current year with a general fund budget deficit of $2.8 billion and will be at least $6 billion short of the amount needed to pay off that deficit, maintain the current level of state resources and establish a prudent reserve.

This highlights a growing problem, the inability of state revenues to keep up with expected spending needs. The problem is exacerbated in 1993-94 when the 1/2 cent temporary increase in the sales tax expires. Figure 4 shows the Commission on State Finance (1991) estimates of revenues and expenditures from 1989-90 through 2001-02. The figures presented include expenditure estimates with and without COLA adjustments. Note that the column with the COLA adjustments does not consider such adjustments for K-14 education since the funding requirement for those programs is controlled by the minimum funding guarantee of Proposition 98 as described above.

Figure 4 makes the state's structural deficit clear. Based on current revenue and spending projections, if all state programs are denied their statutory cost of living adjustments for the next ten years, state expenditures will still exceed revenues by over $6 billion. Figure 5 displays the Commission on State Finance projections of K-14 funding requirements over the same time period. Figure 5 shows an increasing percentage of the state's general fund budget being devoted to education under current conditions. This is largely the result of Proposition 98's test 2, which requires that minimum educational appropriation be equal to the previous year's appropriation adjusted for inflation and enrollment changes. Enrollments are expected to increase by 200,000 student a year throughout the 1990s, increasing the demand for state education funds. When this is combined with the relatively slow growth predicted for state revenues over that same time, the result is a growing share of general fund revenues being devoted to education. While this is probably viewed as good by the state's education community, it may not be popular with the provides and recipients of other state funded services.

To date, no proposals have been put forward to resolve the structural deficit the state appears to be facing. What is clear, is that while Proposition 98 has protected educational funding from the kind of reductions other agencies have faced during the current recession, there is no guarantee that this protection will hold up over time. The problem is made more complex due to the fact that Proposition 98 essentially requires that the Legislature devote this much money to the schools. Over time, the pressure to suspend the provisions of Proposition 98 is likely to increase.

There are other problems facing California school finance as well. Some of the most important are discussed in the next section of this paper.

OTHER SCHOOL FUNDING ISSUES

In addition to concern over the state's overall ability to finance education, as well as all other governmental services, there are a number of other issues facing educational policymakers in their immediate future. These include:

- Categorical .nt programs
- Supplemental grants
- General equalization of school finance, including the issue of intradistrict spending differentials
- School facilities
- The future of Proposition 13
- The Lottery

Each of these is discussed below.

Categorical Grants

California has been a leader in the establishment of categorical grant programs among the states. Today there are over 70 categorical programs, with combined expenditures of over $5 billion (Picus, 1991). These include over $2.6 billion for special education, and over $1 billion for compensatory education. Other programs include the School Improvement Program, the Mentor Teacher Program, and student transportation assistance. Picus (1991) shows that the growth rate of funds allocated to categorical grants has exceeded the growth rate of general revenue for the past ten years. Garcy and Picus

(1992) argue that this growth has occurred because groups of districts have learned to band together to seek support for programs the are aimed at districts with specific characteristics. The legislature has approved these programs as a way to get additional revenue into "favored" districts, i.e. legislators' own school districts, without;t having to commit the resources needed to increase the total level of spending.

While this growing reliance on categorical grants has helped some districts, others have been forced to live within the constraints of their revenue limits. Concern over this development led to the establishment of the Supplemental Grant program in 1988. This program is described below. As for other categorical grant programs, no slowdown in the proliferation of these programs is anticipated in the near future. Legislators appear to favor this type of grant instrument as a way to achieve desired policy goals, or as a way to help "favored" districts, without the expense of providing additional funds to all of the state's school districts.

Supplemental Grants

Supplemental grants represent the extremes to which the establishment of categorical grants have gone in California. Established as part of the legislation to implement Proposition 98 in 1988, the Legislature appropriated $180 million to be distributed to districts with low revenue limits and that received low amounts of money from 27 different categorical grant programs. In other words, districts receive supplemental grants in inverse relation to their need for other categorical grants.

The program was justified on the basis of equalizing total spending across school districts. The problem with this logic is that *Serrano* only requires equalization of wealth related disparities across districts. Other spending differentials based on the special needs of students are allowed under the current interpretation of *Serrano*. Thus, supplemental grants really amount to no more than a way to put more money in middle-class suburban and rural districts.

In fact, it was this allocation of funds to suburban and rural districts that was used to justify the program in the first place. However, as Garcy and Picus (1992) show in their analysis of the distribution and use of supplemental grants, they did not always go to these districts. Over half of the small rural districts did not receive supplemental grants, largely because of their high transportation reimbursements, and four of the nine largest urban districts in the state received supplemental grant funds.

The supplemental grant program is due to sunset after the 1991092 fiscal year unless it is reauthorized by the legislature. The legislative analyst has argued that the program should not be reauthorized, arguing that if equalization is what is desired, more funds should be devoted to increasing the base revenue limits of low spending districts. Garcy and Picus (1992) arrive at a similar conclusion.

School Finance Equalization

Picus (1991) shows that at the present time, 95% of California's K-12 students are in school districts whose revenue limits fall within the $100 *Serrano* band.[5] However, a new lawsuit challenging school funding equity has been filed by the Capistrano Unified School District and eight other districts challenging the equity of the current funding system. Goldfinger (1992) says that the plaintiffs seek a judgement that the current system

[5]The band has been adjusted for inflation so that it is now $268 per ADA.

is unconstitutional based on the equal protection clause of the California constitution, and the Legislature be given a year to establish a new finance system.

The suit appears to be identical to a lawsuit filed in 1980 and rejected after a three month trial in Los Angeles County Superior Court and later by the State Court of Appeals, thus it is unlikely the suit will progress very far this time. However, it may serve to bring school finance to the attention of the public and the Legislature, leading to some changes in the system in the near future.

A related issue in the courts is that of intradistrict equalization. There is currently a suit pending against the Los Angeles Unified School district, *Rodriguez v. LAUSD*, [6] which argues that there are substantial differences in spending per pupil across schools within the district. The district, which has over 600 schools and 640,000 students, as reached a tentative settlement with the plaintiffs. Since most of the spending differential appears to be related to teacher salaries, the district has agreed to create a system that places a cap on the amount of money available for teachers at each school, forcing each principal to develop a staff of teachers with a variety of experience levels. Along with this, the district plans to develop a budget and management system that would allow greater flexibility at the school level, and provide site managers with better fiscal information.

The proposed settlement has run into opposition from the teachers' bargaining unit which opposes the involuntary transfer of teachers among schools. It appears that if the district establishes a goal of equalizing spending for 90% of the schools in the district, it can be accomplished without involuntary transfers. However, the plaintiffs appear unwilling to accept the 90% compliance level, and have threatened to go back to court. At the present time it is not clear whether a settlement can be agreed upon, or if the case will go to trial.

In either event, the *Rodriguez* case adds another dimension to the issue of school finance, questioning whether or not spending differentials within a school district are acceptable. The outcome of this case may have considerable impact on the allocation of resources within other districts in the state over time. At the present time, the Legislature has shown no interest in attempting to influence the allocation of resources to schools within a district, but a high visibility trial and a ruling favorable to the plaintiffs in the *Rodriguez* case could change that picture overnight.

School Facilities

California is in the midst of a school facilities crisis. The school age population is growing at the rate of 200,000 per year. Combined with the need repair and replace aging facilities, the California Department of Education has estimated that over $11 billion will be required to meet this demand. Proposition 13 constitutionally prohibited the levying of an *ad valorem* property tax for any purpose, including the repayment of bonded indebtedness. Prior to that time, school districts could levy property taxes to repay bond issues with 2/3 voter approval. A constitutional amendment in 1986 restored this authority for school districts, although few have been able to pass bond measures due to the super-majority requirements demanded for passage.

Thus most districts have either turned to the state's Leroy Greene Lease Purchase program to finance school construction or looked at other alternative measures. The Greene Lease Purchase Program provides funds to school districts for construction, but at

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[6] Super. Ct. No. C 611358

the present time, is out of funds, and is facing a backlog of applications valued at approximately $6 billion. The legislature has agreed to place a $1.9 billion bond measure on the November 1992 ballot, but that won't even meet 1/3 of the current need, much less meet future demands. State bond measures have one advantage over local bonds in that they can be approved by a majority of the voters, rather than 2/3 of the voters as is the case in school districts.

Districts are also allowed to levy fees on developers to help finance school construction. In fact, districts using the Greene Lease Purchase Program are required to pay for half of new facilities through developer fees or an equivalent amount of money from some other source. Other options available to school districts include public-private partnerships, and establishment of Mello-Roos Community Facilities Districts.

A Mello-Roos district is created in a portion of a district. Voter are then asked to approve a parcel tax (*ad valorem* taxes are prohibited by Proposition 13) to pay back bonds sold for the purpose of school construction. Although a 2/3 majority is still required, many districts have successfully established Mello-Roos districts by creating the district in an area scheduled for development, but currently owned by one or two individuals. Then, a 2/3 majority only requires the agreement of the developers who own the property. The tax is then paid by the owners of each home or other unit constructed on the property in the future.

While districts have been very creative to date in finding ways to build new schools, most still rely heavily on temporary portable classrooms to meet the demands of a growing student population. Funds spent on these facilities further reduce the funds available for construction or even educational programs. No new funding sources for school facilities appear on the horizon.

The Future of Proposition 13

Lurking beneath the surface of this discussion is the current challenge to Proposition 13 pending in the United States Supreme Court. In addition to limiting property taxes to 1% of assessed value, Proposition 13 also restricted the growth in assessed values to no more than 2% a year until a property is sold or otherwise changes hands. As a result, individuals living next door to each other in identical houses could have tax bills that differ by as much as a factor of ten. If one neighbor has lived in his or her house since before Proposition 13 passed, their assessed value is based on the 1975-76 appraisal increased by 2% a year since that time. On the other hand, another neighbor who purchased his or her house in the last year will find their assessment based on the purchase price of house. In many neighborhoods in California, this cold result in property tax differentials of as much as ten to one.

The suit before the U.S. Supreme Court challenges this assessment practice claiming that the California Constitution requires that like pieces of property be treated equally. The Court heard oral arguments in the case about five months ago, and a ruling is expected shortly. If the system is held to be unconstitutional, the result could be fiscal chaos. While there are a range of solutions, many of which could have positive effects on school district revenues, it is not clear that any solution that emerges will make any taxing jurisdiction better off because of the Legislature's unwillingness to raise taxes. In this case, even a revenue neutral solution would create a substantial number of winners and losers, further complicating the ability to reach a solution and weakening the likelihood that any outcome would result in more money for education.

The Lottery

Passed by California's voters in 1984, the Lottery is still widely viewed as a solution to school funding problems. However, as figure 6 shows, lottery receipts have never amounted to more than 3.6% of total school district revenue, and in recent years, the per pupil contribution of the lottery has decline precipitously. The 1992-93 estimate of $485 million amounts to only $ 84.67 per ADA. It is not clear how much of the decline in Lottery sales is the result of the sluggish economy and how much the result of less interest on the part of California citizens. Even if the new Lottery director is able to develop new games that stimulate interest in the Lottery, and the economy turns around, it appears unlikely in the near term that sales will be high enough to match the $834 million contributed to the schools in 1988-89.

Summary

As this section shows, school funding in California is in considerable flux. In addition to an overall shortage of money as described in the previous two sections, there are still a number of distributional issues that must be resolved if school funding is to stabilize. The impact of the lingering recessing, combined with continued resistance to new taxes makes substantial fiscal reform unlikely unless the state is forced into changes as a result of one of the legal actions currently pending.

CONCLUSION

California school districts are beginning their third straight budget cycle where spending reductions are the order of the day. This fiscal stress has led to a number of problems across the state, and the highest ever number of districts facing insolvency. The bankruptcy of the Richmond school district last year led to the passage of AB 1200, a new law designed to make school district fiscal management more accountable and hopefully minimizing the likelihood of districts being forced into receivership. Yet in the midst of this grim financial picture, a number of improvements in the performance of the state's schools have been observed.

Recently, the California Department of Education announced that the dropout rate of high school seniors declined between 1986 and 1991. Moreover, the Department also announced that more high school seniors than ever before meet the stringent admission requirements of the University of California and the State College and University system. This good news comes despite the problems with school district finances.

Much of the recent successes have been attributed to the leadership of State Superintendent Bill Honig. However, Honig was recently indited on conflict of interest charges over the granting of state funds to the Quality Education Project, which was formerly run by his wife Nancy Honig. How this legal problem will affect his ability to lead the education community is not yet clear, but it seems unlikely he will be able to marshall the same level of activity to support the reforms he has championed for the past nine years.

Even if Honig is able to resolve his legal problems quickly and move on, the fiscal crisis facing the state will have a long term depressing impact on schools. As shown above, without new sources of revenue, or substantial spending reductions in other areas, the prospects of new funds being available for education in the near future are bleak. Given the criticism that elected officials have taken over the enactment of the tax increases last year to help resolve the $14.3 billion state deficit, additional tax increases are unlikely.

If further expenditure reductions result, education could be in further trouble. Compared to most other state services, education has been spared the bulk of the cuts. The ability of the education communit ' 'ɔ withstand efforts to suspend Proposition 98 weakens every time other programs are reduced and education holds its own.

Finally, there are growing demands for more accountability from education before more money is made available. The increases of the 1960s, 1970s and 1980s are unlikely to be available in the 1990s unless the education community can provide policymakers with a strategic plan to show how the new funds will be used to improve student learning and outcomes. Unless a commitment to improved student learning can be demonstrated by the e lucation community, future funding increases are unlikely. More of the same will no longer be an acceptable response to increases in revenue for the schools.

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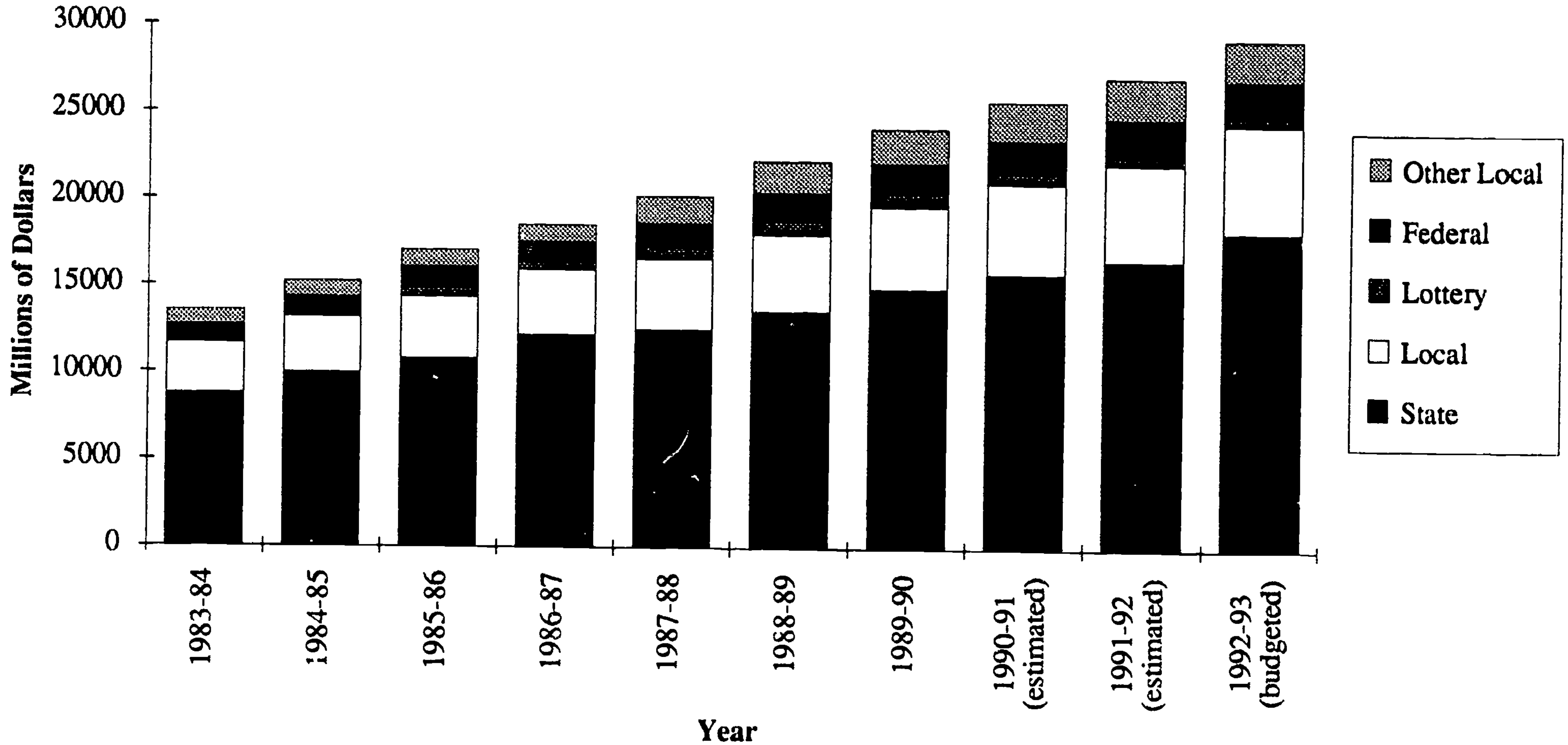
Figure 1
K-12 Education Funding by Source:
1983-84 through 1992-93
(dollars in millions)

Year	State Funds $ millions	Local Property Tax Levies $ millions	Lottery Funds $ millions	Federal Funds $ millions	Other Local Sources $ millions	Total $ millions
1983-84	8724	2976		1017	859	13575
1984-85	9940	3298		1095	918	15251
1985-86	10805	3596	556	1126	1003	17085
1986-87	12174	3804	411	1167	979	18535
1987-88	12486	4132	651	1345	1617	20231
1988-89	13568	4498	834	1517	1807	22224
1989-90	14875	4830	789	1634	2003	24131
1990-91 (estimated)	15743	5312	621	1804	2221	25701
1991-92 (estimated)	16533	5644	485	2090	2336	27088
1992-93 (budgeted)	18173	6292	485	2011	2336	29297

Source: Legislative Analyst, 1992

Figure 2
K-12 Education Funding By Funding Source:
1983-84 thruogh 1992-93



Source: Legislative Analyst, 1992

Figure 3
K-12 Education Funding Per ADA In Current and Constant Dollars: 1983-84 through 1992-93

		Current Dollars		Constant (1983-84) Dollars	
Year	ADA (thousands)	Total Funding ($millions)	Funding Per ADA $	Total Funding ($millions)	Funding Per ADA $
1983-84	4,261	13,575	3,186	13,575	3,186
1984-85	4,353	15,251	3,504	14,559	3,345
1985-86	4,470	17,085	3,822	15,709	3,514
1986-87	4,612	18,535	4,019	16,518	3,582
1987-88	4,723	20,231	4,284	17,269	3,657
1988-89	4,872	22,224	4,562	18,066	3,708
1989-90	5,060	24,131	4,769	18,763	3,708
1990-91 (estimated)	5,265	25,701	4,881	19,098	3,627
1991-92 (estimated)	5,478	27,088	4,945	19,429	3,547
1992-93 (budgeted)	5,728	29,297	5,115	20,190	3,525

Source: Legislative Analyst, 1992

Figure 4
Future State Revenues and Expenditures:
With and Without Anticipated Cost of Living Adjustments for Non-Education Programs
1980-90 through 2001-2002

Year	Total State Revenue ($millions)	Total Estimated Expenditures No COLA ($ millions)	Revenues as a Percentage of Expenditures No COLA (%)	Total Estimated Expenditures With COLA ($ millions)	Revenue as a Percentage of Expenditures With COLA (%)
1989-90	38,749.0	39,036.1	99.26	39,036.1	99.26
1990-91	38,496.0	41,752.0	92.20	41,752.0	92.20
1991-92	43,733.0	42,986.0	101.74	42,986.0	101.74
1992-93	44,675.0	45,976.9	97.17	46,724.0	95.61
1993-94	46,476.0	48,472.6	95.88	50,178.5	92.62
1994-95	49,887.0	51,491.1	96.88	54,258.8	91.94
1995-96	53,310.0	54,386.1	98.02	58,315.8	91.42
1996-97	56,107.0	58,247.7	96.32	62,501.3	89.77
1997-98	60,280.0	62,974.0	95.72	67,539.5	89.25
1998-99	64,826.0	68,151.3	95.12	73,055.7	88.74
1999-2000	69,768.0	73,833.2	94.49	79,108.6	88.19
2000-2001	75,110.0	80,041.3	93.84	85,724.4	87.62
2001-2002	80,853.0	86,901.6	93.04	93,041.4	86.90

Source: Commission on State Finance, 1991

Figure 5
Projected Education Expenditures as a Percent of Projected State General Fund Revenues: 1989-90 to 2001-2002

Year	Total State Revenue ($ millions)	Total K-12 Expenditures ($ millions)	Education as a Percentage of Total Expenditures (%)
1989-90	38,749.0	15,710.0	40.54
1990-91	38,496.0	16,678.0	43.32
1991-92	43,733.0	17,190.0	39.31
1992-93	44,675.0	19,105.0	42.76
1993-94	46,476.0	20,069.0	43.18
1994-95	49,887.0	21,873.0	43.85
1995-96	53,310.0	23,488.0	44.06
1996-97	56,107.0	25,170.0	44.86
1997-98	60,280.0	27,533.0	45.68
1998-99	64,826.0	30,080.0	46.40
1999-2000	69,768.0	32,862.0	47.10
2000-2001	75,110.0	35,910.0	47.81
2001 2002	80,853.0	38,986.0	48.22

Source: Commission on State Finance, 1991

Figure 6
Distribution of Lottery Funds to K-12 Schools: 1985-86 to 1992-92

Year	Lottery Revenues Distributed to K-12 Schools ($ millions)	Lottery Revenues Per ADA ($)	Lottery Revenues as a Percent of Total Expenditures (%)
1985-86	558,437	129	3.4
1986-87	410,881	89	2.2
1987-88	650,852	141	3.3
1988-89	736,142	162	3.6
1989-90	788,800	156	3.3
1990-91 (est.)	613,542	116	2.4
1991-92 (est.)	485,000	89	2.3
1992-93 (bud)	485,000	85	3.1

Source: Legislative Analyst, 1992