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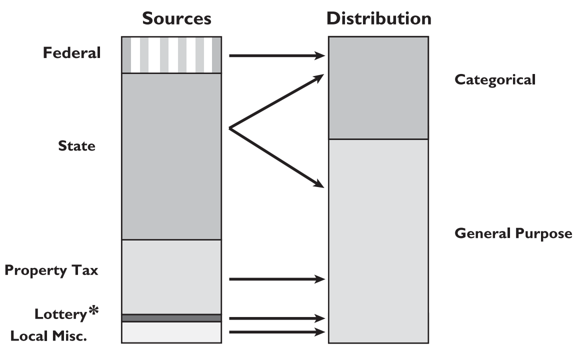
Clarifying Complex Education Issues™

The Basics of California's School Finance System

EVERY SUMMER THE CALIFORNIA LEGISLATURE and governor decide how much money will go to kindergarten through 12th grade (K–12) public education and how it will be divided among school districts, county offices of education, and the California Department of Education. A series of voter-approved initiatives provide significant restraints on both revenue options and how much funding must go to public schools. Although some changes occur each year, the system has looked about the same for more than 25 years.

California's School Finance System



About a third of the state's allocations and all of the federal ones are earmarked for special uses.

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*A small portion of lottery funds is earmarked for instructional materials.

What are the sources of district operating funds?

The column on the left of the diagram shows the five sources of operating funds for schools in California:

- The federal government contributes about 11% of the education budget, up from about 8% in 1996–97.
- About 61% of the funds are from the state—generated by business and personal income taxes, sales taxes, and some special taxes.
- Local property taxes are a little less than 21% of all funds. The Legislature and governor determine what part of these revenues goes to schools.
- The tiny line near the bottom of the column—less than 2% of the total, or about $150 per student—is from the California Lottery.
- Miscellaneous local revenues are about 6% of the total. These come from a variety of sources, such as special elections for parcel taxes (needs a two-thirds vote for approval); contributions from foundations, businesses, and individuals; food service sales, and interest on investments.

These simple boxes tell the whole story: there are no other sources of funds to run California's K–12 public schools.

How are the funds distributed to local school districts?

The column on the right shows how the different sources feed into school districts' operating budgets. Currently, about two-thirds of the money is for general purposes and almost one-third is earmarked for special purposes or categories of students.

Each district has its own particular combination of federal, state, and local sources. The amount depends on:

- the average number of students attending school over the school year (average daily attendance or ADA);
- the general purpose money the district receives for each student (its "revenue limit"), and
- the support for specific programs for which it qualifies ("categorical aid").

The miscellaneous and lottery revenues provide less than 8% of funding statewide. But this money is important to school districts because few restrictions are placed on its use. In some districts, this income represents a significant source of discretionary funds.

How is the amount that goes to each school district determined?

The Legislature established revenue limits at roughly what each district spent on general education programs in 1972, and it has adjusted them for inflation since then. The *Serrano v. Priest* court case, decided in 1976, had the net effect of making districts' general purpose money more nearly equal per pupil in each type of district (elementary, unified, high school). Since the late 1990s, revenue limit equalization has been an intermittent issue, and various strategies have been implemented when funding was available. By the late 1990s, revenue limits were within about a $350 range for districts serving 97% of the state's students. But concerns about remaining inequalities prompted legislators in 2001–02 to pass a plan for further equalizing revenue limits.

A district's revenue limit can be increased only by legislation, not by the school board, superintendent, or local voters. When property taxes rise, most schools do not directly benefit. The additional income goes toward the revenue limit, and the state's share is reduced proportionately. In about 60 of the almost 1,000 school districts, however, property taxes fill up or exceed the revenue limit. These districts are allowed to keep their excess property tax revenues.

Categorical aid is distributed by the state and federal governments according to the needs of the children in the district and the special programs for which the district qualifies. This aid is quite substantial in some districts and minimal in others. Since the 1960s, court decisions, legislative priorities, and pressure from interest groups have created a wealth of categorical programs.

Funding for some programs can be used only to provide specific services, such as school lunches, or to serve the needs of particular students, generally those who were traditionally underserved. The largest of these programs is Special Education, which provides funds for extra services needed to educate students with disabilities. Some programs are completely voluntary. Others provide money to help districts pay for services they are required by law to provide. Still others are incentive programs intended to encourage districts to implement a specific program or reform, such as California's K–3 Class Size Reduction program.

Since the late 1990s, state policymakers have made some attempts to consolidate and simplify categorical programs. But that has been balanced by their tendency to create new programs when extra funds are available, as was the case with the 2006–07 budget.

Do California schools receive enough funding?

In California the question of funding adequacy consistently underlies discussions about improving public schools. Many people point to comparisons with education funding in other states to say California's funding is insufficient.

For almost three decades, this state's expenditures per pupil have trailed the national average. The precise amount varies from year to year, depending on a variety of economic factors and policy decisions among the 50 states. Since 1994–95 the state's expenditures have ranged from 84% to 96% of the U.S. average, depending on the year.

In addition, the number of personnel California schools are able to hire is substantially lower than is true in most of the country. California has a high cost of living, and its residents' salaries are also consistently near the top.

The combination of below average per-pupil expenditures and above-average salaries results in some of the lowest ratios of staff to students in the country. On average, California school districts have about three-fourths as many adults available—and three-fourths as many teachers—as is true on average in the nation. The numbers of school site administrators, district administrators, counselors, and librarians have historically been even lower.

What can California do to improve its funding system?

There are many critics of the state's funding system; and in the coming year, the debate about school finance is expected to intensify.

Some people focus on how much money schools receive, while others worry about how fairly the funds are distributed. A serious and compelling question is whether schools in this state have the resources they need to meet California's demanding academic goals—in particular the extra investment that may be necessary to improve the achievement of the state's English learners, low-income students, and students with disabilities. Some people advocate for greater flexibility for local school districts and schools. Others worry about how to hold them more accountable for spending their resources appropriately and in ways that improve student achievement.

Dealing with these concerns is made more difficult by the complexity of the state's school finance system. A system that was simple and transparent might better enable the public to understand how much money their local schools receive, how they spend it, and who is responsible for those decisions. It could also make it easier for policymakers to evaluate the impact various investments have on student performance and adjust school expenditures accordingly.

How can I find out more?

- For information on California's school finance system, go to EdSource's new California School Finance website: **www.californiaschoolfinance.org**
- For information and publications about California's education issues, go to EdSource's website: **www.edsource.org**
- For detailed financial data on districts, counties, and the state, go to the Ed-Data Partnership website: **www.ed-data.k12.ca.us**

EdSource® is a not-for-profit 501(c)(3) organization established in California in 1977.

Independent and impartial, EdSource strives to advance the common good by developing and widely distributing trustworthy, useful information that clarifies complex K–12 education issues and promotes thoughtful decisions about California's public school system.

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