

Securing and Protecting Education Funding in California

A Summary Brief

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Funding for California schools has improved rapidly in recent years but remains insufficient to meet educational goals and address the needs of students, particularly given California's high cost of living. Now, school districts face flat or declining revenues and rapidly growing student academic and social-emotional needs due to COVID-19. Securing the funding necessary to address these needs and meet state goals will require an enormous, sustained effort. This brief examines how California could generate and protect education revenues. It concludes that the solutions are bigger than what can be achieved through a single tax reform or federal stimulus. It suggests that California's leaders and education stakeholders act now to address urgent, short-term fiscal needs while also creating a long-term master funding plan for education.

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Introduction

California and the rest of the country are enduring a pandemic-induced economic recession—one that economists say is the worst since the Great Depression¹—and school district leaders are bracing for the fallout. Funding for California schools had improved rapidly between 2013 and 2019, with districts spending roughly \$13,100 per pupil in 2018–19 as compared with \$9,680 just 6 years earlier.² However, that level of funding still fell short of what would have been adequate given California’s goals as a state, the student population it serves, and its cost of living.³ According to one of the 2018 Getting Down to Facts II studies, California would need to spend about \$4,000 more per pupil—an additional \$26.5 billion annually—to meet its student outcome goals.⁴ Although California had begun to close that funding gap, the wide gulf that remained is poised to grow once again.

Schools and districts now face three major challenges: precipitous declines in student achievement and social-emotional well-being due to COVID-19; increased costs associated with distance learning and school reconfiguration to comply with public health orders; and the need to tighten budgets.⁵ Securing and protecting the funding necessary to address student needs and meet state goals will require an enormous and sustained effort from many stakeholders.

In the short term, state leaders have temporarily shielded school districts from budget cuts by spending state reserves and promising but deferring large payments to schools.⁶ That debt, which will eventually have to be repaid, could be reduced if California receives additional federal stimulus dollars. Districts may be able to weather the deferrals by borrowing from banks and utilizing their local reserves.

Longer term, the picture is more bleak. The pandemic has triggered record-high unemployment, businesses are struggling to stay afloat, and the state economy remains severely depressed.⁷ Even before the coronavirus crisis, voters had begun to turn down local and state attempts to raise new funding for education,⁸ and it remains to be seen how this economic uncertainty will affect voter behavior for future revenue-generating measures. Even if upcoming ballot measures⁹ pass, the new taxes may not be enough to prevent reductions in funding for schools, much less to fully fund them. Stakeholders must address the short-term crisis while also taking a longer view.

To this end, this brief (and a related longer report¹⁰) examines how California might secure and protect revenues for schools in sustainable and responsible ways over both the short and long terms. We discuss why California needs adequate education funding, how schools are currently financed, and how that structure affects them during good and bad fiscal times. We then draw upon research as well as perspectives from California policymakers, advocates, and education and tax policy experts to offer recommendations.

Why California Should Sustain and Strengthen Investments in Education

By underinvesting relative to its goals and the needs of its student population, California is falling short of “adequacy”—the word used to describe the basic or sufficient level of funding needed to help every student achieve specific educational goals.¹¹ In addition, California has long spent less on education relative to many other states—particularly those that perform better on national assessments. Although California has the fifth largest economy in the world, and although its per-capita tax revenues are relatively high nationally,¹² its investment in education is comparatively low. Based on the most recent data, California ranked:

- 39th in education spending, when adjusted for cost of living;¹³
- 40th in education spending as a percentage of the total economy;¹⁴
- in the bottom quintile in fourth- and eighth-grade reading and math;¹⁵
- 48th nationally in teacher-to-student ratios;¹⁶ and
- 48th in its share of guidance counselors and 51st in librarians.¹⁷

Investments in K–12 education as well as in early care and education, higher education, and other children and family services, are critical to strengthening the economic and social outlook of the state and its citizens. This is because **investments in education and the related increases in student outcomes¹⁸ have been shown to translate into larger benefits for society in three key ways.**

First, a society benefits economically when its citizens attain higher levels of education.

This economic benefit can be measured in higher tax revenues¹⁹ resulting from individuals earning more over time as well as in fewer needed public investments in the areas of health care, welfare, and criminal justice.²⁰

Second, education is critical to the maintenance of a strong democracy. It builds knowledge, teaches people to interact, and leads to greater civic participation, including voting and community engagement.²¹

Finally, investments in education are key levers of equity. Education leads to greater economic and social mobility,²² which is especially important at a time when income inequality is growing and racial disparities are glaringly apparent. The young people who were most underserved by our educational system before COVID-19 are also those hardest hit by the pandemic. Their families are most likely to experience unemployment, food or housing insecurity, negative health outcomes, and other traumas.²³ Austerity in education funding will worsen these divides; conversely, strengthening educational investments, particularly in our vulnerable communities, can help address current needs and pave the way towards future academic, economic, and social prosperity.

How State and Local Taxes Fund California Education

California's Overall Tax Structure

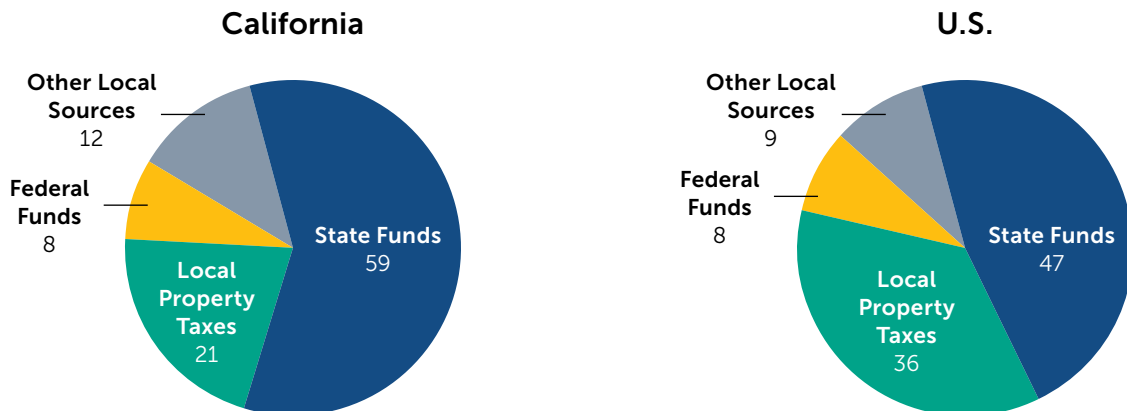
Three main sources form the bulk of state and local tax revenues in California. Personal income tax represents the largest share—more than one third—while sales and use taxes and local property taxes each represent just over one quarter of revenues. A variety of smaller taxes, including corporate income tax, make up about 10 percent of revenues. Most but not all state tax revenues, particularly highly volatile personal income tax, go into the General Fund and are used to fund education, health and human services, and other state programs. The remaining revenues go into Special Funds with specified purposes, such as highway construction and transportation.

Sources of K–12 Education Revenue in California and Other States

California's K–12 school districts are funded through a mix of state, local, and federal sources, as shown in Figure 1. Overall, state sources make up 59 percent of district revenues, with most coming from the General Fund. Local property taxes comprise 21 percent; other local sources, including parcel taxes, rent from leased properties, private donations, and other sources make up another 12 percent.

Education in California is more dependent on state funds than in most other states. This was not always the case: Before voter-approved Proposition 13 limited annual property tax increases, local property taxes comprised more than half of district revenues.²⁴ As the local property tax share has declined, the state share has increased. This has made education funding more volatile than in other states due to the relative volatility of the state's tax revenues, which are highly dependent on individual income taxes. In good economic years, education funding surges as California's top income earners do well, particularly in the stock market. In bad economic years, education funding suffers as earnings from capital gains and dividends evaporate.




Figure 1. Percentage of K–12 Education Funds by Source, California and U.S.²⁵



How California Determines and Allocates Funding to K–12 School Districts

Decades of voter referenda, court decisions, and policy changes have woven the fabric of today’s complex funding system. At a high level, the legislature and governor decide how much the state will devote to education each year by applying formulas that answer three key questions, as described in Table 1.

Table 1. Proposition 98 and the Local Control Funding Formula Largely Determine How Much Money Each District Receives

<p>Key Questions</p>	 <p>1. How much state funding is available for education?</p>	 <p>2. How much money is each district entitled to receive?</p>	 <p>3. How many funds does the district contribute and how many does the state contribute?</p>
<p>Key Policies</p>	<p>Proposition 98 determines the minimum amount of funding for education and guarantees that roughly 40 percent of the General Fund goes to K–12 and community college education. Prop 98 is exceedingly complicated to administer, has been frequently modified, and has typically been used as a ceiling rather than a floor for education funding.²⁶</p>	<p>The Local Control Funding Formula (LCFF) is used to determine how funding is distributed to school districts. Under the LCFF, each district receives a base grant per pupil, with supplemental and concentration grants added based on the number and percentage of students who are economically disadvantaged, English learners, and/or in foster care.²⁷</p>	<p>After applying the Prop 98 and LCFF formulas, districts are funded through a combination of local property taxes and state funding, with high property-wealth areas receiving less or no state funding, and low property-wealth areas receiving more state funding.</p>

Perspectives on Funding from Education Leaders

In order to understand how state leaders think about school funding challenges, opportunities, and policy options, we conducted semistructured interviews with: (a) education finance and tax policy experts, (b) advocates and representatives from business and community organizations, and (c) legislative staffers and education decision makers. Sixteen of these interviews took place before the emergence of COVID-19 and seven were conducted in spring 2020, after the onset of the pandemic-induced fiscal crisis.

Stakeholders Agree More Education Funding is Needed

Nearly all the policymakers, advocates, and education and tax policy experts we spoke with agreed that California public education would benefit from additional resources and that the 2020 recession will make things far worse. However, there was little agreement on what

an appropriate level of funding would be and few practical proposals for how attain it. Before the economic downturn, many advocates we spoke with were generally focused on securing increasingly more funding or establishing state funding targets. Some policymakers and analysts, however, cautioned that education funding was in a reasonably good place following years of significant state investment. Since the pandemic, however, both groups seem to have reoriented around staving off cuts and mitigating harm to district operations, teaching, and learning.

Policy Changes Must Prioritize Equity

Most stakeholders we spoke with agreed that school funding could be a vehicle for tackling California's growing economic inequality, supporting its diverse student population, and addressing needs in increasingly under-resourced and segregated communities. One interviewee said: "We are more diverse than ever before. Income disparities are more apparent. People are angry about the level of funding, and they know how important education is for our success and their success."

With race and income-based disparities in both home circumstances²⁸ and educational opportunities²⁹ even more dramatic since the onset of COVID-19, interview participants urged state and federal leaders to invest stimulus dollars in community and school-based services that will mitigate inequities, protect vulnerable children and young people, and address systemic racism. In addition to seeking federal investments—and as a longer term strategy—respondents suggested raising revenues from wealthy individuals, corporations, and resource-rich communities, as well as creating mechanisms for redistributing some of those funds to higher need and historically under-resourced places.

California Has Multiple Options for Protecting and Increasing Funding

Increasing education funding above 2019–20 levels may be impossible in the coming year and perhaps longer, depending on the depth and duration of the current recession. Most experts agree that in the months ahead it will be most practical for policymakers to focus on prioritizing available resources, mitigating harm, and advocating for greater federal support. Even so, advocates continue to demand more state funding, and voters will be asked in November 2020 to increase corporate property taxes to market rates in order to fund schools and other community services. The state will also need to secure sufficient resources to repay the massive deferrals it issued to school districts for 2020–21. California has multiple options for securing new and necessary education revenues; three such are outlined below.

1. Make full and better use of available funds. The state should reexamine state spending and priorities. Over the past four decades, California has increased its spending, as a share of revenues, on public welfare, health care, and incarceration. However, spending on K–12 and higher education has declined.³⁰ Between 1980 and 2013, California state and local spending on K–12 education increased by 113 percent while state and local spending on corrections increased by 369 percent.³¹

State policymakers, however, pointed out that education cannot receive a larger share of limited state funds without cuts to other programs. Stakeholders who are demanding increases in education funding, therefore, need to investigate why more state revenues are not already reaching education, including how some state funds and local property tax revenues previously available for education have been diverted to county governments through realignment and other tax and program shifts over the years.³² Policymakers should also examine why spending in areas like health care has increased and put pressure on the broader state budget.

Respondents also said that California should secure every available federal dollar by ensuring full census counts, drawing down untapped Medicaid dollars for school-based health care and mental health services, accessing other entitlements that may be available, and advocating for increased federal spending on programs like Title I and the Individuals with Disabilities Education Act (IDEA). During this current health and economic crisis, most people we spoke with said state and local leaders should also loudly advocate for increased federal stimulus and coronavirus relief funding.

2. Raise new tax revenues. Experts agreed that the state should develop a plan for broadening the tax base in order to spread the tax burden across sectors and allow tax rates to be more modest. The state should also aim to identify a tax base that provides a growing supply of revenue while minimizing the tumultuous impact that volatile revenues have on the state's budget, particularly on education funding. The K–12 system's current reliance on unstable revenue streams is problematic because it creates financial uncertainty for school districts and prevents them from being able to plan for the long term.

Some tax options include increasing tax rates on high-income individuals or corporations, expanding the sales tax to services, and creating a "split roll" in the property tax by removing the cap on increases in assessed value for corporate properties.

California should also reconsider the limited role local governments have in raising revenue for their schools—a limitation that was imposed by voters with 1978's Prop 13. There are two reasons it could be helpful for counties, cities, or school districts to have greater taxation authority. First, significant untapped wealth may reside in local communities, and voters may be more inclined to pass measures that will benefit their own communities than they would be to pass taxes that augment statewide coffers. Second, it would stabilize revenues if a higher proportion of revenues came from more stable tax sources, including from property taxes, which tend to be far less volatile during economic fluctuations.

If California were to allow for broader local taxation, it would have to mitigate inequities. For example, it could establish an equalization approach or could require consortia of high- and low-wealth school districts to join together to broaden the tax base and share revenues via regional agencies such as counties.

3. Reduce tax expenditures. Finally, policymakers and advocates could also consider eliminating tax breaks as a source of additional revenue. These so-called tax “expenditures,” which include tax credits, deductions, and incentives, reduce state revenues by tens of billions each year and effectively lower the Prop 98 guarantee. California could eliminate some tax breaks, make them harder to renew, or increase state government oversight. Indeed, Governor Newsom has already moved in this direction. The 2020 budget includes a temporary 3-year suspension to certain corporate tax breaks, thereby adding an additional \$4.3 billion in state revenues.³³

California Must Build Consensus, a Funding Roadmap, and Political Will

Those we interviewed expressed concern that conversations about K–12 funding are siloed from conversations about funding for other sectors that serve children, youth, and communities, particularly early childhood education. When advocates compete against one another for limited resources, success is harder to achieve and efficiencies are lost, making it imperative to frame this as a cradle-to-career conversation.

Coordinating conversations across all of these segments—and also among business and labor sectors, community partners, and the broader public—will be a herculean effort, but this is the place where the governor and other influencers ought to lead. Respondents called on the state to develop a long-term plan, one that looks far beyond a single election cycle. This plan must include multiple stakeholders, a multifaceted revenue plan, and authentic and broad engagement with communities.

California would not be starting from scratch, as campaigns are already afoot or have been tried. California Calls, the group advancing the “split roll” proposal, has led ballot-box efforts to raise education revenues, and groups like the California Budget and Policy Center have convened stakeholders to discuss a multiyear plan for tax and systems reform. California Forward, the California School Boards Association, the Berggruen Institute’s Think Long Committee for California, and Governor Schwarzenegger’s Commission on the 21st Century Economy have previously put out proposals and roadmaps. These prior coordination efforts may offer viable policy recommendations and lessons about what should or should not be done moving forward.

In any scenario, building political will for increased investments must be central. Most of the people we interviewed said that state policymakers care about education funding but that it is difficult for them to do much to increase it without public demand. It is never easy for elected officials to champion tax increases, and it is even harder during a recession. For this reason, increasing funding for education will require the support of voters and the broader public.

New Revenues Must be Paired With Improvements and Accountability

More money is necessary, but the public must be assured that it is being spent wisely. Those we interviewed said it is currently difficult to know how money is being used and expressed frustration with the Local Control and Accountability Plans and other LCFF transparency efforts. They pointed out that outcomes have not improved, even while funding has. With outcomes flat and little information on how money is being spent, many worried that policymakers, the public, and business leaders would be hesitant to invest significantly more.

Several people expressed concern that, absent other structural reforms, new revenues would be sunk into pension costs and health care benefits or “go onto the bargaining table.” Others pushed back on this view, saying that teacher compensation is at the core of what districts do. If anything, these experts argued, California should be prioritizing teacher recruitment and retention in order to build a strong and stable workforce. It remains to be seen how the recession will shift this view.

Recommendations

State Leaders Must Seek Additional Federal Revenues to Address Both Immediate and Ongoing Needs

State leaders should loudly demand additional federal coronavirus relief and stimulus dollars in order to maintain education funding levels; fund the increased cost of school and community-based services during the pandemic; and maintain education jobs and programs. Those federal funds and other one-time dollars should be directed primarily to communities and school districts serving low-income and high-need families and students. Resources for these groups will be critical in addressing learning loss and in preserving and increasing services to meet heightened levels of student need. At the same time, state leaders should advocate for additional ongoing federal support for schools, including increases in Title 1 and IDEA funding, to improve educational and economic competitiveness and tackle long-standing systemic inequities.

Identify New and Sustainable State and Local Revenue Sources

Voters will have the opportunity in November 2020 to raise corporate property taxes to market rates in order to invest more in schools and communities. State leaders should support this and similar reforms that make California’s tax base broader, fairer, and more stable. They should also eliminate tax loopholes and credits that reduce state revenues and exacerbate economic inequalities.

Additionally, while the economic downturn continues, state legislators should fund education well above the Prop 98 minimum—even if that means using state rainy day funds or state borrowing. School districts should not be forced to bear a disproportionate burden of state cuts or to borrow funds locally when statewide solutions can be found.

State Leaders and Education Stakeholders Should Develop a Master Plan for Education Funding That Covers More Than Just K–12, Particularly Early Education

The governor, legislative leadership, and other state leaders are uniquely positioned to make education funding a priority and to exert influence to ensure progress is made. These state leaders, along with advocates, business leaders, labor partners, funders, and other essential stakeholders, should come together (potentially through legislative hearings and task forces) to develop a long-term plan for education—one that addresses governance, accountability, and funding. The funding plan should include a balanced mix of practical tax and policy options; should braid funding across early education and K–12 as well as, potentially, other children- and youth-serving program areas; and should examine underlying funding structures like Prop 98.

The State Should Strengthen Fiscal Transparency and Analysis so That Stakeholders Understand how Money is Being Used

Although California policymakers have sought to expand transparency by requiring districts to adopt Local Control and Accountability Plans—which outline goals, actions, and expenditures—stakeholders are still dissatisfied and often confused. Education leaders and policymakers should continue to improve the accessibility of school spending information and should ensure that stakeholders can draw statewide, not just local, insights. During the current crisis, it will be particularly important to know how stimulus dollars and heavily constrained state funds are spent to support students, especially the most vulnerable.

Policy Researchers and Policy Analysts Should Examine how to Modernize California’s School Funding Infrastructure

Research could establish a common understanding about the needs, options, and potential fiscal impact of various policy solutions—as well as build consensus. It is time to reexamine formulas like Prop 98, which few people understand given all the changes made to it over time. Policymakers need to know how California’s funding formulas interact with local and state revenue streams, and the extent to which these protect or compromise adequate and stable funding, particularly during economic downturns.

Conclusion

Despite California’s wealth and recent investments in education, it was still underinvesting in schools prior to this pandemic-induced recession, and it was also lagging behind other states in K–12 funding and achievement. Now, schools face budget challenges at the same time that student needs are growing, economic inequality is expanding, and costs continue to rise. As they weather the current storm, state and local leaders must protect education funding and services as best they can. But they must also take a long view, which includes identifying existing and new sources of stable funding. California’s leaders and education stakeholders should come together to create a master plan for education. Such a plan will demand state leadership, coalitions among groups with often divergent interests, a range of tax reform options, and a willingness to reexamine long-entrenched formulas, priorities, and systems.

Endnotes

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Policy Analysis for California Education (PACE)

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- 2 making research evidence accessible; and
- 3 leveraging partnership and collaboration to drive system improvement.

Related Publications

Hahnel, C., Hough, H. J., & Willis, J. (2020, September). **Securing and protecting education funding in California** [Report]. Policy Analysis for California Education.

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