LITTLE HOOVER COMMISSION

DOLLARS *and* SENSE: A SIMPLE APPROACH *to* SCHOOL FINANCE

July 1997

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July 10, 1997

The Honorable Pete Wilson
Governor of California

The Honorable Bill Lockyer
President Pro Tempore of the Senate
and members of the Senate

The Honorable Rob Hurtt
Senate Republican Leader

The Honorable Cruz M. Bustamante
Speaker of the Assembly
and members of the Assembly

The Honorable Curt Pringle
Assembly Republican Leader

Dear Governor and Members of the Legislature:

A complicated system of financing education benefits no one -- not the children whose learning needs often have little to do with spending formulas; not the educators who divert their attention from the classroom to attend to administering and tracking multiple funding streams; not the policy makers who want to address current needs but find their hands tied by historical patterns of spending; and not the taxpayers who demand answers and results but instead get confusion and excuses.

Yet a complicated system to pay for schools is exactly what California has. Driven by court decisions, voter initiatives, political compromises and shifting trends, the system has grown increasingly complex without demonstrably moving the State any closer to the goal of a sound education for all children.

The Little Hoover Commission has been tracking education issues for almost 35 years. Throughout that time, regardless of whether the issue has been governance, teaching methods or costs, the Commission has returned again and again to a single word: accountability. Our consistent theme has been that the State should set standards and goals and then hold local districts accountable for results -- a direction towards which the State is now moving.

As the State proceeds with a process to set grade-by-grade education standards and to develop a corresponding assessment process, it is critical that the financing system be reformed and aligned with the new goals. How schools are paid for is an integral factor in how they function and how they perform. It will be futile to expect schools to revamp their methods and focus on new, high standards if funding formulas continue to drive decisions in ways that have little to do with academic results.

Milton Marks Commission on California State Government Organization and Economy ✦http://www.lhc.ca.gov/lhc.html

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In the following report, which is being transmitted to the Governor and the Legislature with this letter, the Commission examines the historical context of and current problems with the State's education finance system. In developing the five findings and eight recommendations, the Commission looked for ways to streamline funding without losing sight of three goals:

1. Providing children who have diverse needs the equity of opportunity to learn rather than mere equity of dollars spent.

2. Retaining local control of methods and options while requiring uniform statewide standards.

3. Investing adequate resources to ensure a well-educated, productive citizenry.

With those goals in mind, the Commission is urging the Governor and the Legislature to take several steps, including:

- Redesigning the education funding system to simplify formulas, redirect the focus to educational needs rather than process and ensure meaningful equity of educational opportunity.

- Simplifying the Special Education system to ensure equity and flexibility without diminishing protections for children with special needs.

- Realigning fiscal accountability measures so they conform with and drive decision-making toward the statewide educational goals now being developed.

- Re-enforcing local control of schools by creating a local funding option.

- Convening a process to build consensus on what elements constitute an adequate education environment in California.

Education financing today is a quagmire -- and no doubt many believe that little can be done to change a system that is well-entrenched and defended by a variety of special interests. But the State has committed itself to starting from scratch to determine what children should learn and how they should be tested. No less care should be taken with the financing system that supports and shapes education.

Sincerely,

Richard R. Terzian
Chairman

Dollars and Sense:

A Simple Approach to School Finance

July 1997

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Executive Summary

Executive Summary

How California pays for its schools affects how they function and how they perform. If funding only flows when districts make certain decisions, then those are the decisions that most likely will be made -- regardless of how they relate to educational needs and goals. If schools are held accountable principally for how dollars are spent, then that will be their focus rather than how much students learn.

California's system of paying for schools has grown increasingly complex in the past three decades -- and increasingly frustrating for those who desire an effective financing system. The complexity seems to have done little to help students succeed in the classroom. Educators are often thwarted and citizens baffled by a difficult-to-understand system. Uncounted resources are diverted to administering and tracking arcane formulas, and providing equity for students has become a bookkeeping exercise rather than an honest assessment of whose needs are not being met.

Crafting a financing system that marches in lockstep with educational goals for schools is not easy. But as the State edges closer to adopting uniform standards and assessments on the education side, it is critical that reforms occur to bring the financing side into alignment. The following findings and recommendations are designed to help the State reach that goal:

Finding 1: The present education funding system is convoluted -- driving up administrative costs, diverting attention from educational concerns and depriving the public of readily accessible, comparative information.

Money reaches districts, school campuses and individual classrooms through complex formulas that are difficult to understand and that are constantly manipulated by state policy makers, state bureaucrats, school administrators and outside consultants. The convoluted system is very difficult for the public to understand -- and therefore to trust and support. In addition, the system is expensive for the State to administer and oversee for fiscal accountability. The same is true for districts, whose decisions are sometimes driven by financial factors that have only a tenuous connection with educating children.

> ***Recommendation 1: The Governor and the Legislature should redesign the education funding system to simplify formulas, redirect the focus to educational needs rather than process and ensure meaningful equity of educational opportunity.***

California's education finance system is too complicated. It often acts as a stumbling block rather than facilitating the achievement of the goals of educators, policy makers and taxpayers. And the complexity has grown rather than diminished despite years of criticism and reform proposals by a variety of experts. Inertia, fear of the consequences of a new system and divergent political perspectives make it difficult to change the system. Clearly, an extraordinary and well-focused effort will be required to achieve any wholesale reform.

Establishing a venue for reform is the first hurdle policy makers should address. To focus on overall reform rather than current resources and individual problems, the reform effort should be kept separate from the annual budget cycle. A special joint legislative committee, charged with an agenda of reform issues and a time frame for negotiations, could supply the framework for building consensus -- or at least acquiescence -- among key stakeholders. A similar process was used successfully in 1996 to address the deregulation of electricity and introducing competition to energy markets.

Once reform discussions are under way, specific changes that policy makers should make include:

- Adopting a Whiteneck-Mockler-style model that provides school districts with equal basic grants plus proportionate funding for special needs and special costs.

- Changing the pupil count method to eliminate the need to track daily attendance and absence excuses, instead relying on enrollment figures -- as other states do -- and using other mechanisms to target truancy.

- Amending the Constitution to allow one-time educational expenses that are not built into the Proposition 98 base, as recommended by the California Constitution Revision Commission.

- Eliminating current basic aid payments to high-wealth districts by adhering to the Legislative Counsel opinion regarding ways to fulfill the State's constitutional obligation, as recommended by the Legislative Analyst's Office.

- As a short-term measure, until comprehensive financing reform can be enacted, consolidating categorical funding in line with recommendations by the Legislative Analyst.

Finding 2: The funding system for Special Education is out of step with mandated programs, available resources, student needs and common sense.

Many of the problems with California's education finance system are magnified in the Special Education portion of the system -- and this is true despite the fact that Special Education is segregated from the regular education system structurally and is based on a completely different approach to funding. For example:

- Just as in the regular segment of the system, the Special Education program is marked with funding inequities, on both a child-by-child and district-by-district basis. There is little rational basis for the differences.

- In addition, adequacy of funding -- an often-debated concern in the regular education program -- is a key issue in the Special Education program, where the costs of providing mandated services to children quickly outstrip the willingness of state and federal policy makers to allocate funds.

- Finally, both systems seek accountability by measuring inputs and auditing procedures rather than by measuring student results. This

is especially troubling in the Special Education system where the federal mandate is to meet the individual child's needs -- not to spend a certain amount of money on each student or to give them a certain set of services, but to provide them a meaningful education.

Recommendation 2: The Governor and the Legislature should redesign the Special Education funding system to achieve simplicity, equity and flexibility and to shift accountability to outcome.

Elements of both the tri-agency recommendation and the current reform proposal go far toward resolving problems with the current Special Education financing system. However, policy makers should be wary of continuing present inequitable patterns simply for the sake of obtaining the political consensus to move forward with reform. At some point, even if on a phased-in schedule, all Special Education children should have the equal opportunity to receive services regardless of the district they live in.

Recommendation 3: The Governor and the Legislature should ensure that primary responsibility for special-needs students rests in their home districts.

Money should not be routed directly to SELPAs if it is going to increase the already-existing tendency for districts to consider Special Education students someone else's problem. Districts should be able to purchase regionalized services from SELPAs, but any realignment of the financing system should not further divorce Special Education students from the general education population and structure. Parents should be assured of having single-point access at the home district for service, advice and complaint resolution.

Recommendation 4: The Governor and the Legislature should petition the federal government to live up to its original funding commitment -- and if it is unwilling to do so to consider realigning the Special Education mandate with fiscal realities.

Much of the tension and acrimony within the Special Education system comes from the irresolvable conflicts between funding shortfalls and legitimate demands for appropriate services. The existing system is not fair to educators, parents, students or taxpayers. Congress should be strongly urged to increase funding levels.

Any discussion of modifying the mandate to provide services to Special Education students needs to be handled with extreme sensitivity to the fact that -- prior to the enactment of the broad mandate -- schools often turned their backs on this population. They should be given no opportunity to do so again. But clarifying the mandate and bringing it in line with the slightly more narrow but still powerful protections of the Americans with Disabilities Act would give both schools and parents better guidelines for taking action.

Finding 3: Because there is no way to judge schools on academic results, the State focuses on fiscal accountability for process and inputs -- often to the detriment of educational efforts.

When school districts violate sound fiscal policy, California has a mechanism for taking over and bringing the operations back to financial health. But when districts repeatedly fail to produce the outcome that education is all about -- students with a solid base of knowledge and skills -- there is no remedy. The State's system instead focuses on accountability for process and inputs: Did the district provide the correct number of instructional minutes and school days? Were categorical funds spent on the proper services? Did the district comply with teacher-to-student ratios and administrator-to-teacher ratios? Since these are the questions by which they are judged, districts spend substantial time, energy and resources getting the answers right. Unfortunately, no research has indicated that these are the factors that improve student learning.

> ***Recommendation 5: Once academic performance standards and assessment systems are in place, the Governor and the Legislature should ensure that the State's education accountability system shifts to outcomes.***

Educators should not have to struggle to meet the demands of two accountability systems: the existing one that focuses on processes that are largely unrelated to academic achievement and the new one that will surely be the natural consequence of implementing statewide standards and tests. Instead, the State should take steps to make sure that fiscal accountability is focused on meaningful activities. These steps could include creating rewards -- such as incentive bonuses -- and sanctions -- including an academic bankruptcy process -- to encourage better focus on academic performance.

Finding 4: Despite 1,000 locally elected district boards and a professed preference for local control, California's schools are run by the State -- directly through mandates and indirectly through fiscal constraints.

The history of schools in California is one of local control, beginning in the early days before statehood when settlers pooled resources to hire a teacher for the one-room schoolhouse they had built as a community project. But court rulings, voter initiatives and legislative mandates have steadily pushed the State into controlling ever increasing portions of the education system. While dominance by the State in education fiscal matters has been seen as the best route to equity, many believe the shift from local to state control has eroded financial resources for schools, public support for the education system and meaningful accountability.

Recommendation 6: The Governor and the Legislature should create a local funding mechanism that provides districts with equal opportunities to raise revenues.

Communities should be able to demand responsiveness and accountability from their local school boards. They cannot as along as the boards can easily and legitimately point to the State as the source of funding shortfalls and specific mandates. Districts that are able to make a convincing case to their local voters should be allowed to raise revenues more easily to enhance their educational programs. If required, to ensure the equity provisions of *Serrano* are maintained, revenues should be limited and balanced by state grants to low-wealth districts, as suggested by the Legislative Analyst and others.

Recommendation 7: The Governor and the Legislature should empower school districts to operate independently as long as outcome standards are met.

Multiple top-down constraints on school districts have done little that can be demonstrated to improve educational performance. While ratios of teachers to students and teachers to administrators may be desirable standards, they should be implemented locally at the behest of voters rather than imposed by state mandates.

The pending initiative that would dictate a 95-5 percent split of funding between schools and district offices is one more example of a reform that focuses on inputs rather than outcomes and replaces local discretion with state control. State officials should accelerate the move to an outcome-based, academically focused accountability system to restore confidence

in the education system -- which in turn should discourage similar initiatives.

Once performance standards are in place, state officials should adopt a model that requires the State to set broad goals and allows local districts to use flexibility to meet the goals.

Finding 5: The allocation of education funding is driven by resource availability and political considerations rather than a determination of what is required to provide an adequate education.

When the State wants to build a highway, it plans, designs, accepts bids from contractors and then moves ahead with construction once enough funding is available. The cost depends on the product -- the length, width and type of road, the conditions that must be overcome to build it, the wages of the workers, etc.

But when it comes to education, the process is reversed. The State starts with an allocation and then tries to determine how much and what kind of education that will buy. Unfortunately, the product is ill-defined, methods can vary substantially and quality is uncertain. It should not be surprising, therefore, that there is never a sure answer to "how much is enough?"

> ***Recommendation 8: The Governor and the Legislature should convene a process to build consensus on what elements constitute an adequate education environment in California.***

Just as the Commission for the Establishment of Academic Content and Performance Standards is focused on learning content, a similar commission could consider issues such as class size, school year length, number of course offerings in high schools, building condition and ratios of types of services to students. These elements could then be used to develop standard school components, with coinciding expense estimates, to serve as a model for districts.

Introduction

Introduction

California will spend almost $34 billion on schools and the services provided at them in the 1996-97 fiscal year. Well over a third of the State's General Fund is dedicated to elementary and secondary education. Yet despite the enormity of this commitment of public dollars, the number of people is tiny who will understand -- accurately and completely -- how the funds are parceled out to districts, school sites and individual classrooms. The funding system for education is complex and grows more so annually with each new tweak and adjustment.

Does it matter that the education finance scheme is largely incomprehensible? After all, California is huge, its population is diverse and the needs of its students are varied. Perhaps a sophisticated, multi-layered funding formula is to be expected.

Unfortunately, the intricacies appear to have less to do with sophistication than with expediency. And the results of the complexity undermine public confidence in and support for the State's public schools in many ways, including the following:

■ ***Lack of meaningful accountability:*** It is very difficult for consumers and taxpayers to get straight answers about what is going on financially with schools. If a parent complains that his child has no textbooks, the teacher points to district procedures that delay purchasing and the district points to the State for failing to provide adequate funding -- and the State points to the district for making poor choices on how to use its resources. If a taxpayer wonders why the school in his neighborhood is falling apart, acting as a magnet for

vandalism and depressing his property value, the principal tells him about the long wait for maintenance services, the district talks about uncooperative voters and underfunded state assistance, and the State argues that locals have to pay a share of costs because the State cannot afford to underwrite all of the facilities for a rapidly expanding school-age population. Blame is continually shifted, both upwards and downwards, and any desire on the part of the public to help resolve school financial problems soon evaporates.

■ ***Public/parent dissatisfaction:*** There is a widespread perception that more and more dollars are poured into education but that the results are less and less satisfactory. There are rising tensions over the various special interest groups that "encroach" on general education funding and diminish the resources for other students -- special education students, English learners, impoverished children. There is corrosive distrust of school boards, whose decisions often do not appear to be child-oriented and academically focused but instead appear to be driven by labor negotiations and the desire to leverage more state funding through program choices. None of these feelings often expressed by the public and parents are assuaged by a financing system that is difficult to explain and largely disconnected from the concerns of consumers.

■ ***Questionable equity:*** There is frustration that some schools find the wherewithal to provide a broad range of desirable opportunities while others struggle but fall short of offering even plain-vanilla services. There is no straightforward answer to why one district has more discretionary funds than another. And being told that California's school system is equitable as adjudicated in court does not change an intuitive conclusion that some schools have more and many have less. The courts have required basic per-pupil funding to be within a $300 range. But in a typical 600-student elementary school, that could be a swing of $180,000 -- enough to hire several more teachers and buy lots of books. Adding on other types of funding that are purposefully targeted to some schools and not others increases the imbalance of resources, sometimes justifiably but often not.

■ ***Lack of results-oriented leadership:*** Presumably policy makers aspire to have their decisions driven by the State's educational goals for all students. But with a complicated web of constitutional directives and statutory mandates, the competing interests for state dollars and the constraints imposed by limited resources, state policy makers rarely have the luxury or the ability to make outcome-focused decisions. Instead, there is often a wink and nod at goals while innovative ways are found to modify formulas to give the most vociferous players incremental gains. Small parts of the elephant may be examined and voted on -- the trunk elongated, the ears expanded -- but never is the whole beast subjected to scrutiny, understood in context and pummeled into some more rational form.

■ ***High process costs:*** Millions of dollars are spent on process rather than product. Dollars that never make it to the classroom and arguably

do nothing to teach a child to read or do arithmetic include the salaries for: an attendance clerk at school so that per-pupil daily revenue based on daily attendance counts can be captured and justified; an accountant in the district office to fill out state forms proving that transportation funds have not been diverted to pay for chalk and paper clips; a specialist to tell the district how to align its programs to gain a bigger share of categorical funding; and an auditor for the State to ensure paperwork compliance -- not that schools are doing their job of educating but that they are following procedures. Multiply these individuals many times over and it begins to be clear that the cost of complexity is high and largely irrelevant to the task at hand -- educating children.

The price for the complicated system and the problems it brings is paid by the children. Disenchantment with public schools translates into lack of taxpayer support -- and without such support, schools deteriorate further and engender even less confidence in the population they serve and the public they should be accountable to.

For almost 30 years, the Little Hoover Commission has examined California's education system, pinpointing problems and urging solutions. In the past decade alone, the Commission has examined the flow of dollars to the classroom, the dropout rate, governance issues, construction needs, bilingual education and charter schools.

A troubling common thread throughout all of these Commission reports has been the lack of meaningful ways to hold the system accountable for educating children. Accountability, instead, is almost always focused elsewhere: on the types of teachers employed; the time and place that student head counts are taken; the pedagogical methods used; the precise way funds are spent; and the chain of command for state decision-making.

Many of the Commission's past recommendations have focused on clarifying who is accountable and shifting what accountability should be linked to. But reform has been slow in coming and improvements have been on the margin rather than wholesale.

Acting on the premise that the root of accountability may well lie in how dollars are allocated, the Commission decided to examine the financial structure that California has built for schools. Among the questions that arose were:

- √ What financial ground rules has the State laid out for schools and what accomplishments must schools demonstrate to justify their share of funding?

- √ What subtle signals are embedded in funding formulas that mold school choices -- irrespective of student need -- to maximize available resources?

√ Does complexity preclude average citizens and even well-versed policy makers from really understanding the impact of day-to-day district choices and year-to-year state budgetary decisions?

√ Are allocations based on rational judgments about student needs and effective programs -- or on luck, partisan edge and district clout?

To conduct its study, the Commission sought the advice of a broad range of experts and education practitioners. Using an advisory committee that numbered more than 100 people (please see **Appendix A** for a listing of participants), the Commission explored a variety of financing issues over a seven-month period, with dozens of people meeting in more than 40 hours of round-table discussions. The advisory committee focused on five topics: adequacy of funding, equity of educational opportunity, state versus local control, base and categorical funding and Special Education.

In addition, the Commission conducted three public hearings, two on general finance issues and one on Special Education (please see **Appendix B** for agendas of witnesses). The Commission also reviewed documents from the Internet, materials from education think tanks, professional journals, textbooks and other sources.

The Commission's findings and recommendations are contained in this report, which begins with a transmittal letter to the Governor and the Legislature, an Executive Summary and this Introduction. Remaining sections include a Background and five findings: two on simplifying the system, two on redirecting accountability and one on the issue of adequate funding. The report ends with a Conclusion, Appendices and Endnotes.

No amount of fancy rhetoric about standards and goals, even when enshrined in statute, will cause schools to act differently if they continue to be rewarded financially for filling out forms instead of educating children. Understanding what message the financing system gives schools is a critical first step for reshaping education to produce the classroom results California is looking for.

The Commission believes the following report provides the foundation for that understanding and offers pragmatic policy choices to reach a system that will be focused on student achievement.

Background

- *In 1996-97, California will spend $34 billion to educate and provide school-based services to about 5.5 million children in kindergarten through 12th grade.*

- *California is in the bottom 10 states for per-pupil spending -- but some states that spend more post no better results.*

- *The way the State pays for schools has been shaped by court decisions and voter-approved initiatives during the past 25 years: Serrano focused on equalizing some types of funding, Proposition 13 shifted power to the State and Proposition 98 narrowed policy makers' options.*

- *Nationally, past lawsuits focused on equalizing dollars; the new trend addresses the adequacy of educational efforts and equity of opportunity for all students.*

Background

California once had a widely recognized superior education system. By many measures, that is no longer the case. Defenders of the State's education efforts point out that the pressures faced in California are tremendous: rapidly expanding school-age population, dramatic increase in children who -- for a variety of social and economic reasons -- are not school-ready when they get to the classroom, and the growing burden of meeting the needs of students with disabilities or language barriers.

Many critics of California's education system, however, point to declining or stubbornly static test scores, increasing school-site crime and the lack of job- or college-readiness by graduates -- all despite larger and larger infusions of funding -- as proof that schools are failing. They argue that even when taken into account, the challenges schools face are not an excuse that should justify continuing failure.

Both defenders and critics believe that something must be done -- but there is little agreement on what that magic "something" is. The debate often turns to money: At one extreme, there is the simple demand for more money. After all, New Jersey -- another densely populated, urbanized state -- spends more than twice as much as California does per student on education. At the other extreme, there is a fervent belief that more money is not necessary. If the stranglehold of education bureaucrats and labor unions could be broken, public schools could perform as inexpensively as many private and parochial schools do, this argument runs.

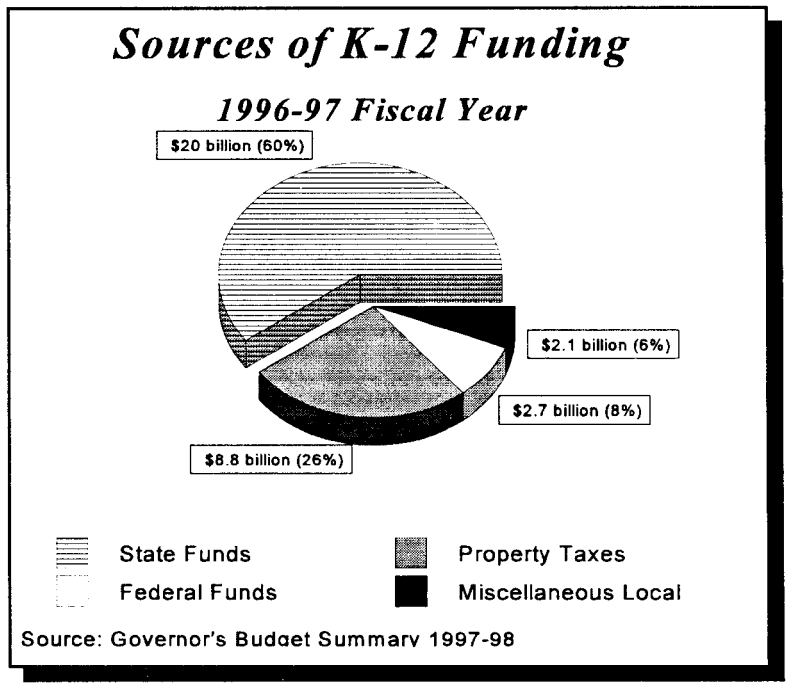
There is a growing middle ground of believers between those who think more money is the only solution and those who believe any more money would be wasted. This middle ground revolves around how money is spent and how schools are deflected from their main mission by the way money is allocated. From this middle ground, advocates for change skirt the issue of whether there is enough money in the system and focus instead on ways to spend money more effectively and on means of aligning the allocation system to match education goals.

In its study, the Little Hoover Commission has been following the middle ground logic, examining the way the allocation system drives school decisions and diverts resources to non-educational activities. This examination began with an exploration -- detailed in this background -- of the State's present status on financing education, historical events that have shaped State actions and current national trends.

Current Spending

In the 1996-97 fiscal year, California will spend about $34 billion to educate and serve about 5.5 million children in grades kindergarten through 12th.[1] Not all of those funds will be spent on activities that most citizens think of when they drive by their local schools. Included in the State's education budget are dollars for adult education, nutrition, pre-school programs and child care, among other non-classroom activities. Experts estimate that the cost of educating children, shorn of the extra but important social services schools provide, is about $26 billion.

By far the majority of the funding, almost $20 billion, comes directly from the State. The lion's share is from the General Fund, $19.3 billion, with the proceeds from the California Lottery ($580 million) and miscellaneous state funds making up the rest. As the graph at the right indicates, local property taxes come in at a distant second with almost $9 billion, followed by the federal government at almost $3 billion and miscellaneous local sources for the remainder.[2]



School funding in California is not a local matter. Most of the money comes from either the State or local property taxes that are split between schools and local governments at the discretion of the State.

The total amount dedicated to K-12 education in California has steadily, albeit slowly, climbed.

A decade ago, California spent $16 billion.[3] While today's $34 billion represents an increase of 113 percent, the amount has not climbed fast enough to cope with several factors, including:

- ***Student population growth.*** In 1986-87, the State had 4.5 million students[4] compared to 5.5 million today, a 22 percent increase in demand for services solely from population growth.

- ***Inflation.*** The rising cost of living has eaten away at increased spending. Between the 1986-87 school year and the 1996-97 school year, the cumulative increase in the California Consumer Price Index was 39 percent -- a notable impact on schools' purchasing power.

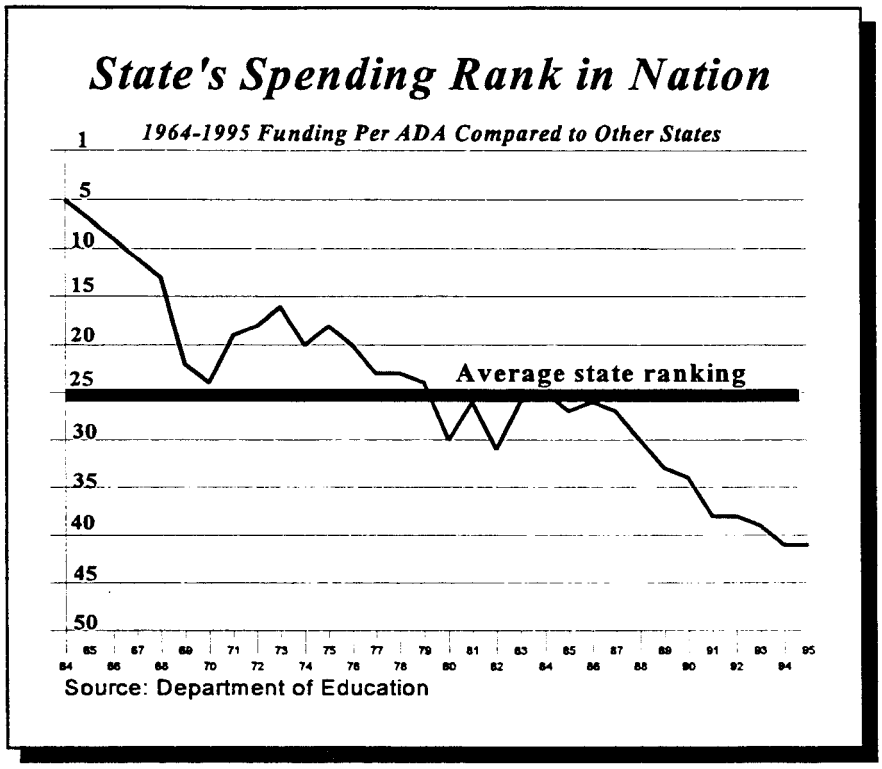
- ***Increased service requirements.*** The education program does not remain static. In many cases, state expenditures have been increased to meet mandates regarding the education of special needs children, as well as to provide programs to better prepare children who are at risk for doing poorly in school and to address other social needs. For instance, spending on Special Education has roughly doubled in the past 10 years, increasing both the levels of service and the number of children involved.

The interplay of these three factors is significant. For instance, it can be argued that per-pupil spending has increased, more than compensating for the effects of population growth. But inflation has turned the added funding into a phantom increase. In 1987-88, state funding per student (as defined by Proposition 98, which will be discussed later) was $3,621. By 1996-97, the amount rose to $4,820. But when adjusted by the Consumer Price Index, the value was $3,435 -- meaning that schools could purchase less per student despite increases in funding.[5]

Similarly, the increased mandates for service have soaked up a disproportionate share of new funds that have been dedicated to education. A study by the Economic Policy Institute of nine school districts in the nation, including Los Angeles Unified School District, found that between 1967 and 1991 expenditures on the regular education program dropped from 80 percent of education funding to 59 percent. Of the added funding allocated to education in 1991, only 26 percent went to the regular education program. Spending increased greatly for special education, counseling, food service and programs for dropout prevention, bilingual education and job training.[6]

One way that people rate California's educational efforts is by comparing the state to others in the nation. In 1964, California ranked fifth in the amount spent per student each day -- the Average Daily Attendance (ADA) -- when all state, federal and local funds were considered. For the rest of that decade, the State ranked in the top 10, although the trend was downwards as student numbers soared. The '70s found the State flirting with, but always staying above, the national average, even as the effects of court decisions on the funding system (which will be described

in the next section) began to be felt. In the '80s, the State hovered around the national average despite the huge impact of initiatives on traditional education spending patterns (also described in the next section). The deepest plunge occurred after 1988 -- a time when the school-age population surged and the economy plunged into recession. Between 1964 and 1995, California dropped from fifth in the nation to 41st in terms of per-pupil education spending.[7]



During the '60s and '70s, California outspent the national average. But in the 1980s, the State's ranking was only about average, plunging to the bottom quartile of states in the 1990s.

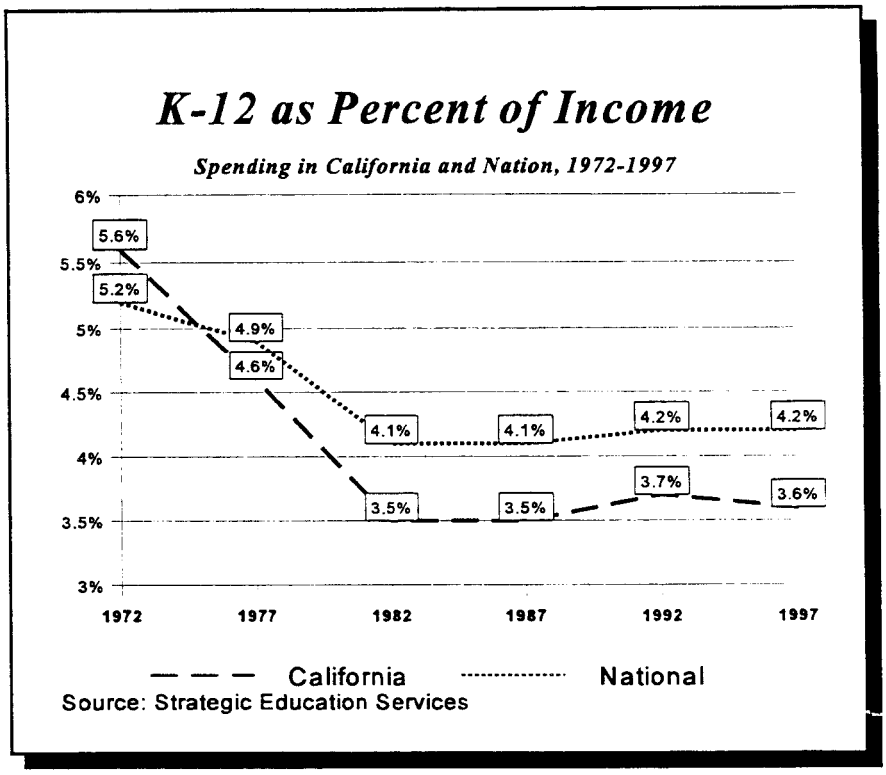
Looking at the figures behind the rankings makes the differences across the nation even more stark. In 1995-96, California spent $4,977 -- $1,121 less than the national average of $6,098 and about half of the approximately $10,000 spent by top-ranked states like New Jersey, New York and Alaska.[8] In 1995 when the State ranked 40th, EdSource (a nonprofit education think tank) estimated it would cost $5.7 billion to bring the State up to the average amount of spending and $28.4 billion to match first-place New Jersey.[9]

Another way to judge California's education funding is to determine how much the State spends as a percentage of per-capita personal income. If people are willing to tax themselves at a certain proportion of their personal income to pay for education, then when their income expands, their investment in schools should rise proportionately.

As the chart on the next page indicates, that has not been the case in either California or the nation in the past 25 years. In 1972, education spending in both the State and the country was more than 5 percent of per capita personal income. The percentage declined sharply to 4.1 percent for the nation and 3.5 percent for the State in the late '70s and early '80s before leveling off at 4.2 percent and 3.6 percent in the '90s.

Since each 1 percent of California's personal income equals about $8.5 billion, school finances would be $17 billion richer if California were still spending on education at the 5.6 percent rate followed in 1972. That translates into about $3,000 more per student than California spends today.[10]

California compares poorly to other states in this statistical match-up as well. The State ranks 43rd among all states on education spending as a percentage of per capita personal income.[11] In 1995, only 11 states had a higher per capita income than California but only three states spent less on education.[12]



When calculated as a percentage of per capita personal income, spending on education has dropped in both California and the nation -- but the plunge has been steeper in California. The two-point drop is a loss of $17 billion in annual education spending.

Critics of such statistical comparisons are quick to point out that merely comparing state spending patterns tells nothing about the educational results. New York, which spends almost double California, has test scores that are comparable. New Jersey, which spends about as much as New York, has superior test scores to both California and New York but litigation over the adequacy of education there continues to result in court rulings that push New Jersey's spending higher and higher.

Looking at New York and New Jersey, states that are comparable to California in population density and diversity, the moral may be that California is doing a very efficient, cost-effective job of achieving mediocre test scores. Or more to the point, big spenders do not necessarily get good results (New York) -- but sometimes they do (New Jersey).

By itself, such data is hardly definitive enough to be used to shape the public policy that governs the investment of billions of dollars in education. Even if matching the national average, the top-ranked state or past percentages of per capita income would guarantee educational success, other factors come into play when making budget allocations. In California, decisions on education spending have been driven and molded far less by educational needs and goals than by a series of court and voter decisions.

Historical Perspective

The history of California's educational spending has swung back and forth between state and local domination of funding, according to an associate professor at the University of Southern California.[13] For the first six decades after a school governance and financing act was established -- from 1851 until 1910 -- districts were required to raise one-third of the financing for schools from local sources. The State covered its two-thirds share with state property taxes and other resources.

In 1910 in response to the growing recognition that the state property tax was inequitable, voters adopted a constitutional amendment that in essence gave local governments the property taxing authority and reserved for the State other types of taxes, including inheritance, bank and corporation taxes. Although part of the amendment gave schools and the state university first priority for state appropriations, the practical effect was to greatly increase the local share of funding to support schools.[14]

When the increasing weight of local property taxes proved too burdensome, further constitutional amendments and statutory changes came in 1933, doubling state support for schools and lowering local property taxes. The sales tax was introduced at this time to help the State pay its new, larger share of schooling costs.[15]

After the Depression and World War II, local taxpayers once again felt that their share of paying for education was too great. Constitutional amendments in 1946 and 1952 raised the mandatory minimum state aid for schools, and a statute in 1947 established a minimum level of support for all schools to be funded by a combination of a state grant and local funds. But local property taxes continued to provide the bulk of education funding.[16]

By the 1970s, property values in California were booming and the costs of education were rising, putting great pressure on local property taxes. The two-fold result would play out in two arenas: the courts and the ballot box. Education advocates, impatient with large disparities in funding for schools, took the State's financing scheme to court. And taxpayers, watching their tax bills climb ever higher as property values soared on paper but not in their pockets, approved an initiative that cut the ground out from under local financing of schools.

During this time, schools were heavily dependent on local property taxes. Elected school board trustees would fashion a budget to meet state mandates and local preferences for education, determine what state funding would be coming their way and then set a property tax rate that would raise the remaining needed funds locally. Districts with valuable property -- expensive homes or costly commercial and industrial holdings -- could set low tax rates and enjoy increasing prosperity as

property values rose. Districts with less desirable property struggled to levy large enough tax rates to generate funding in the face of stagnate values.

The State provided some additional money to so-called "low-wealth" districts. But the disparity in districts' ability to spend was still staggering. In the 1970-71 fiscal year, the tax rates in the State's 1,100 districts ranged from 39 cents per $100 of assessed valuation to $7.83. The difference in expenditures per Average Daily Attendance ranged from $420 to $3,447.[17]

The dramatic differences in money-raising capacity prompted the filing of *Serrano vs. Priest*, a lawsuit that argued children in districts with low property values were not being treated equitably. In August 1971, the California Supreme Court ruled that the State's school finance system created disparities in spending that violated constitutional requirements for equal protection of all citizens.

Comparison of School Spending, 1968-69

School District	*Assessed Value Per Pupil*	*Tax Rate*	*Expenditure Per Pupil*
Alameda Co.			
Emery Unified	$100,18	$2.57	$2,223
Newark Unified	7	5.65	616
	6,048		
Fresno Co.			
Coalinga Unified	$33,244	$2.17	$963
Clovis Unified	6,480	4.28	565
Kern Co.			
Rio Bravo Elemen.	$136,271	1.05	$1,545
Lamont Elemen.	5,971	3.06	533
Los Angeles Co.			
Beverly Hills Unified	$50,885	$2.38	$1,232
Baldwin Park Unified	3,706	5.48	577

Source: *School Finance: A Policy Perspective*[18]

Disparities in the ability of districts throughout the state to raise funds were difficult to overlook -- especially when they occurred in neighboring communities. These examples were cited in an August 1971 Supreme Court ruling that found the school financing system unconstitutional.

Serrano vs. Priest was sent back to Superior Court for factual determination. Not awaiting the outcome, the Legislature began to adjust the system. But their initial efforts were found insufficient when the state Supreme Court in 1976 ruled the system unconstitutional in a decision that is often referred to as *Serrano II.* The court wrote:

> *Substantial disparities in expenditures per pupil among school districts cause and perpetuate substantial disparities in the quality and extent of availability of educational opportunities. For this reason the school financing system before the court fails to provide equality of treatment to all the pupils in the state. Although an equal expenditure level per pupil in every district is not educationally sound or desirable because of differing educational needs, equality of educational opportunity requires that all school districts possess an equal ability in terms of revenue to provide students with substantially equal opportunities for learning. The system before the court fails in this respect, for*

> *it gives high-wealth districts a substantial advantage in obtaining higher quality staff, program expansion and variety, beneficial teacher-pupil ratios and class sizes, modern equipment and materials, and high-quality buildings.*[19]

Serrano II required that the wealth-created differences in districts' abilities to raise general funds be narrowed to "insignificant differences, which means amounts considerably less than $100 per pupil" within six years.[20] (A later decision allowed this amount to increase by an inflationary factor that today sets the allowable range at about $300 per pupil.) The court recognized that differences in district spending because of special needs (disabled or poor students, for instance) and special costs (transportation, desegregation, weather-related utility costs) would not need to be equalized.

The Legislature's response was a system that set revenue limits for each school district based on historical spending and then applied differential cost-of-living adjustments. Low-wealth districts would move slowly toward the state average because they would receive larger cost-of-living increases than high-wealth districts. High-wealth districts would be limited in their ability to raise extra revenue.

This complicated and incremental approach avoided the simplistic solution of dividing the pot of property taxes equally among all students statewide. Such an approach -- while appealingly straightforward -- would have required big-spending districts to cut back, lowering academic efforts in half of the districts to raise them in the other half. It also would have met with taxpayer resistence since local districts would have been loathe to raise tax rates only to see the funding go elsewhere.

In addition, many who understood the dynamics of population and property values recognized that the impact would hit minority and low-income students, despite *Serrano's* intent of helping this population. While the court decision and popular belief envisions low-wealth districts containing impoverished students, often high-wealth districts -- those with lots of commercial and industrial development -- are home to substantial numbers of low-income residents. Five large metropolitan areas -- Los Angeles, San Francisco, San Diego, Long Beach and Oakland -- have assessed valuations at or above the state average and have the largest concentration of poor students. Conversely, the majority of the highest spending districts in the state were not home to wealthy families, as also envisioned by *Serrano*, but were sparsely populated rural districts with high operating costs.[21]

Subsequent *Serrano* decisions continued to prod the State to reform the system. Today more than 97 percent of the State's students attend school in districts that fall within the acceptable band of per-pupil revenue. In 1989, the *Serrano* case was declared closed. The State, however, continues to provide funding to low-wealth districts in an on-

going effort to bring them up to state averages (in 1996-97, the cost was $147 million).

Despite the institutional absolution provided by the end of *Serrano*, the question of equity remains open for many. These include the lay public, who see some schools spending more than others and are either unaware or unimpressed by the justification of extra funding for special needs or special costs. And they include professional evaluators, like Education Week, which recently handed California a grade of D for equity (tying the state with Rhode Island and Texas for dead last among all states). Education Week noted that the disparity between California districts at the 5th and 95th percentile in spending per pupil in 1992 -- even after all of *Serrano's* equity demands -- was $3,230.[22]

While *Serrano* started the State down a path of apparent reform, Proposition 13 had a more immediate and dramatic impact on education funding. The Legislature had been on the verge of implementing a complicated series of equalization formulas to address *Serrano's* dictates more quickly than the variable cost-of-living increases would when voters approved the property-tax-cutting initiative Proposition 13 in June 1978. Property tax rates were instantly equalized at 1 percent of assessed value and enshrined in the State's Constitution. Growth from this revenue source was suppressed, with property value increases limited to 2 percent annually unless the property changed hands. Overnight, the State went from having diverse tax rates set and collected locally to essentially a single statewide system. And the decision of how to allocate property taxes between local governments and schools became a discretionary decision for state lawmakers -- who soon learned that shifting more

Equity in the Eye of the Beholder

The common understanding about the *Serrano vs. Priest* decision is that schools must spend equal amounts on students. That, however, is neither the basis for the *Serrano* case nor the result of the court's rulings.

The case was built on the fact that districts had different abilities to raise money because property values varied throughout the state. What was ruled unconstitutional was the disparities in school district revenues that were related to the differing property values. At no point did the court rule that each child must have a proportionate share of education funding.

Equity, even when narrowly confined to funding from property taxes by the courts, does not mean equal. A series of *Serrano* decisions found equity to be satisfied within these ranges:

- √ District revenues per student should be within a $100 band. But since this was allowed to increase by inflation, the band is about $300 today -- a potential swing of about $180,000 at an average 600-pupil elementary school.
- √ There is not one $300 band, but six. The court allowed separate revenue categories for large and small districts of three types: elementary, unified and high school.
- √ The test of whether equalization has been reached is not the percentage of districts within the appropriate band, but the percentage of students -- the majority of whom attend school in 300 of the State's 1,000 districts.
- √ The only revenue measured is funding for basic education, even though special-needs and special-costs funding may subsidize general administrative and operating costs.

Source: Lawrence O. Picus, USC

property taxes to schools meant less reliance on the State's general funds for education.

Proposition 13 shifted the responsibility for education spending from local government units to the State. (The consequences of the shift from local to state funding will be examined in Finding 4.) Prior to Proposition 13, school districts received a set amount of state aid and then raised property taxes to meet the rest of their needs -- this was true both pre- and post-*Serrano*. Now, without the ability to raise property tax rates, districts instead must depend on the State to provide the difference between property taxes generated and the revenue needed to run the schools.

In a post-Proposition 13 world, most of the growth in education spending came from the State rather than from a shared partnership of state and local sources. But Proposition 13 and other initiatives and court decisions regarding tax levies did as much to tie the hands of state policy makers as it did local school districts. Now tax increases, special fees and other financing mechanisms required a two-thirds majority vote, whether in the district or in the Legislature -- a difficult hurdle that kept school finances in check.

In 1988, voters again substantially affected the school financing structure by passing Proposition 98. This initiative guaranteed schools about 40 percent of the state General Fund. It also required that the schools get at least the amount budgeted in the prior year, plus an adjustment that acknowledged the impact of student population growth and inflation. Another requirement guaranteed that most funding above the Gann limit for state spending -- an initiative approved by voters in 1979 -- would be used for schools rather than returned to taxpayers. (The Gann limit is not addressed here; voter-approved modifications of the limit's formulas have effectively placed the ceiling high enough so that school spending is not affected.)

Many advocates would argue that Proposition 98 has protected school finances during the State's recent recession -- and there is little doubt that the State's revenue windfall from the robust economy in mid-1997 would not be dedicated almost entirely to schools if it were not for Proposition 98. But others see the proposition as an unwieldy tool that has not stopped policy makers from manipulating school funding. Many feel it also has acted as a ceiling for spending rather than the intended floor.[23] Since increases in state spending for education in one year are built into the base for the next year (unless carefully constructed), Proposition 98 can act as a disincentive for policy makers to expand education programs.

Certainly much of the complexity, as well as court action, that has plagued school financing in the past few years has stemmed from the twists and turns policy makers have used to avoid suspending Proposition 98. Few would argue that the formula contortions were focused on educational needs.

Thus, the education financing structure in California has evolved in the past three decades under the force of a set of major decisions: the 1970s adjusted for *Serrano*, the 1980s struggled with the impact of Proposition 13 and the 1990s coped with Proposition 98 in the throes of recession.[24] California has not been alone in seeing its education finance system change. Many other states have struggled with similar issues.

National Context

Education spending reform across the nation has often been the result of court pressure. That pressure has largely focused on equity of dollars. Even when attention has shifted to the quality of education, the yardstick has been money and the measurement has been comparative resources.

In the past two decades, more than 60 suits have been filed in 41 different states.[25] According to the Education Commission of the States, funding systems have been ruled unconstitutional in 15 states and have been upheld in 17 states. In many other states, litigation is still pending or has been dismissed without a conclusion being reached.[26]

Authorities generally recognize three "waves" of litigation that have spurred reform of education spending.[27] The first wave focused on the U.S. Constitution's equal protection clause and held the potential for resolving the issue of equitable funding on a nationwide basis. Leading the way was California's *Serrano* case -- but the U.S. Supreme Court's *Rodriguez* decision effectively halted this wave at a national level in 1973, finding that education is not a federal

Education: Not a Fundamental Right

The process of fighting disparities in education spending state by state, lawsuit by lawsuit, would have been avoided if at least one U.S. Supreme Court justice had viewed the Constitution differently.
In 1973, the court issued a 5-4 decision that education is not a fundamental right protected by the Constitution.

That decision, *San Antonio Independent School District vs. Rodriguez,* came just three years after California's initial *Serrano* decision, which relied heavily on the reasoning that education is covered by the U.S. Constitution's equal protection clause and that an identifiable class of citizens were being harmed by the State's education funding structure.

When a fundamental right and a "suspect class" of individuals are involved, the court applies "strict judicial scrutiny" to the State's reasoning. That means the State must prove, if citizens are treated unequally, that there is a compelling state interest to protect -- such as local control of schools -- and that no lesser measures would work.

Ruling in the Texas case, the U.S. Supreme Court disagreed. The justices found that education is neither explicitly nor implicitly protected as a fundamental right. They also declined to acknowledge low-income families as a suspect class since there is no evidence that they cluster in low-wealth school districts -- in fact, many live in high-wealth business and commercial areas.

Since neither a fundamental right nor a suspect class was involved, the court did not invoke strict scrutiny and Texas did not have to prove a compelling state interest -- instead, merely a rational one. The state's financing system, therefore, was held constitutional despite disparities in resources for different districts.

While knocking the rationale out from under the initial *Serrano* ruling, the Texas ruling had little effect in California. The next round of *Serrano* decisions shifted to the California Constitution and ruled the State's financing system illegal on state grounds.

Source: Michael Heise, Temple Law Review

constitutionally protected right that must be provided equally to all citizens.

The stage was set for a second wave of litigation -- a state-by-state approach that would rely on the education clauses in state constitutions. The results were spotty since constitutional language varies from state to state. Between 1973 and 1989, just as many state courts upheld financing systems as invalidated them.[28]

Most of the equity decisions rested on findings that per-pupil spending should be equalized but did nothing to address the uniformity of buildings, textbooks, computers, teacher competence and other factors that impact educational opportunity. At least one study found that higher spending districts have smaller classes, higher paid and more experienced teachers and higher instructional expenditures -- all factors that are believed to be important in achieving high student performance.[29] But higher spending is no guarantee that a quality education will be offered. By focusing on equity -- fairness in amounts of money distributed -- prior lawsuits did little to ensure that all children received adequate opportunities to learn. (The issue of shifting accountability from equity of dollars to equity of opportunity will be explored more thoroughly in Finding 3.)

The third wave of litigation built on the dissatisfaction that people were beginning to feel with the results of successful equity litigation. Some researchers have found that despite court-ordered equity measures, per-pupil spending gaps persist in many states.[30] There has even been dispute about whether education spending increases when courts intervene: Some researchers have shown that California's education spending was actually depressed by the results of Serrano, while other researchers have demonstrated increased overall spending in states like Kentucky.[31] A study at the University of California, Davis, suggests that when the response to litigation is reform that centralizes spending at the state level, overall funding declines over time. When responsive reform is centered on the state merely supplying extra funding to low-spending districts, then aggregate education funding increases over time.[32]

Beginning in 1989 with a Kentucky case, attention

Kentucky Defines Adequate

In the absence of academically or nationally recognized standards of adequacy for education, the Kentucky Supreme Court crafted its own. The court found that an adequate education must have the goal of developing in each child seven basic capacities -- a list since adopted by other courts in making adequacy rulings. The seven criteria are:

- √ Oral and written communication skills.
- √ Knowledge of social, economic and political systems.
- √ Knowledge of governmental processes.
- √ Knowledge of mental and physical wellness.
- √ Grounding in the arts.
- √ Adequate training for life work.
- √ Sufficient academic and vocational training to compete with students in surrounding states.

focused on adequacy rather than equity, targeting the education clauses in state constitutions. A keynote decision was *Rose vs. Council for Better Education*, where the Kentucky Supreme Court ruled that even the state's most affluent school districts were inadequately funded in comparison to what the court called acceptable national standards. Citing test scores below surrounding states' scores and a 21 percent dropout rate for ninth graders, the Kentucky court ruled the entire school system unconstitutional. The Legislature was forced to adopt a new education system and increase funding substantially.

Another example of adequacy litigation is in New Jersey. That state's 1970s lawsuits focused on equity, with *Robinson vs. Cahill* finding that the state's constitution did require equity in educational efforts. The 1990 decision in *Abbot vs. Burke* relied on a clause in *Robinson* that said an educational system should produce educational outcomes sufficient to allow students to compete in the labor market. In declaring New Jersey's financing system unconstitutional for the 28 poorest school districts, *Abbot* found that students in these districts achieved poorly and did not meet the need for well-schooled and skilled workers in the labor market.[33]

Other adequacy cases have not been successful, however. In New Hampshire, the state Supreme Court ruled in 1993 that the state must provide children with an adequate education, leaving the definition of adequate to a lower court. Three years later, the lower court ruled that while large disparities in funding exists, the plaintiffs did not prove that the state was providing students with an inadequate education. (In fact, one politician noted that the state's students

California's Push for Adequacy

The disparity in school conditions in Los Angeles Unified School District (LAUSD) led to a lawsuit in 1986 over unequal education opportunities. Some schools were well-maintained, spacious and staffed with experienced teachers. Others were run-down, overcrowded and suffered constant staff turnover, with only the least experienced teachers guiding students. The latter schools were usually attended by children of color.

The suit, *Rodriguez vs. LAUSD,* was settled by a consent decree in 1992. Although the suit focused on conditions at schools that define the educational opportunity afforded children, the solution came in the same terms that more standard equity lawsuits use. The consent decree requires the district to equalize at all schools per-pupil spending on basic necessities, such as teacher salaries, administration and school maintenance.

The potential effect of the suit has yet to be felt, although the district has begun the process of leveling funding. Since teacher salaries make up the bulk of a school site's budget and since experienced teachers command greater salaries, spreading dollars evenly among schools theoretically requires all school sites to have a mix of experienced and novice teachers. Achieving such a mix may prove difficult in the face of policies that allow senior teachers to choose their job site. Hiistorically, most have chosen to avoid crowded and troubled inner city schools.

Although settled by negotiation rather than judicial determination, the suit should serve as a warning for other large districts, many of which have their own examples of uneven funding at the school-site level.

Source: Lew Hollman, San Fernando Valley Legal Services

are in the top third of SAT scores nationwide.) The judge in the case said it was the court's job to determine constitutionality but the Governor, Legislature and citizens' job to make any needed reforms in education.[34]

The Illinois Supreme Court reached a similar decision in that state in 1996 after six years of lawsuits focused on the state's constitutional wording that calls for "an efficient system of high-quality public education."[35]

California is not likely to ever see a Kentucky-style lawsuit, with the question of the adequacy of the State's educational program compared to a constitutional standard. The State's Constitution does not require that an adequate -- or any other specified quality -- education be provided to students, only that a system of common schools be operated.

Many have pointed out that the question of adequacy is trickier than the pursuit of equity (which has proven thorny enough). As complicated as achieving equitable spending has been, the road to an adequate education is uncharted. There is no set standard for what constitutes adequacy, just as there is no agreement on what children should learn and how they should be tested to prove they have learned it. Adequacy -- both of funding and educational opportunity -- will be examined in Finding 5.

While the examples of education finance reform discussed above were the result of court action, litigation is not the only route for change --

Now You See It, Now You Don't

One day, Michigan's schools -- like most in the nation -- were heavily supported by property tax revenues. The next day, they were not. The sudden and largely unexpected change came about through legislation rather than court action.

Between 1972 and 1993, Michigan's voters rejected 12 statewide ballot measures that would have reduced the reliance on property taxes for school funding. These failures to reform school financing occurred even though there was a widely held belief that property taxes were too high.

In 1993, when the Legislature was arguing about the latest proposal to reduce property taxes, one senator proposed an amendment to eliminate property taxes completely as a source of revenue for schools. At the time, the move was interpreted as her effort to point out how silly it was to cut property taxes without specifying replacement revenue for schools. If mere rhetoric was the purpose, the move backfired as both houses quickly passed the measure and the governor signed it into law. Within hours, the State had eliminated property taxes as a source of revenue for the following school year.

With the self-imposed pressure on, the Legislature placed an alternative on the ballot for voters to consider and passed a default measure in case the ballot proposal was rejected. When the dust settled, voters had approved the ballot measure and Michigan had shifted from a decentralized funding system to a state-dominated one. The major sources of revenue are an increased sales tax, cigarette tax and real estate transfer tax and a new telephone tax and statewide property tax (greatly reduced from the previous local property tax).

No other state has followed Michigan's do-or-die example, although many have reduced or restructured property taxes in conjunction with school finance reform.

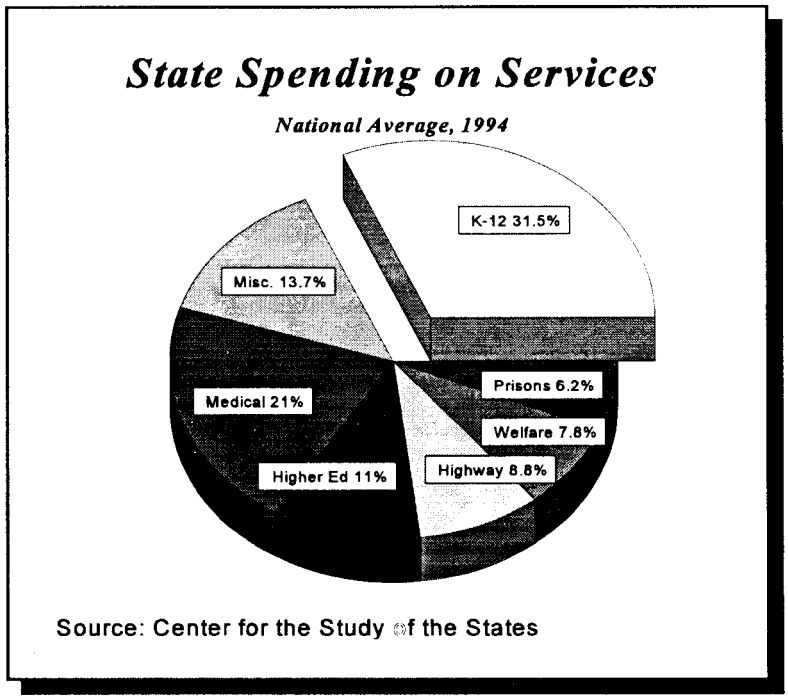
Source: Policy Analysis Management, Winter 97

although it is by far the most common since a court decision creates an unavoidable mandate for action, while legislative action requires political consensus that a problem exists and that a solution should be provided. By one count, 21 states have achieved legislative reform without a court order in the 25 years since *Serrano*. But at least three of those states -- Tennessee, Missouri and Arizona -- still were not immune from suits and court rulings of unconstitutionality after their reform efforts were found wanting.[36]

Summary

Education is a big investment for government, outranking in cost and size most of the services that government is expected to provide its citizens. In 1996, spending on public education across the nation reached about $256.3 billion. In 1994, the average state spent 31.5 percent of its resources on elementary and secondary education.[37]

In California, the system for financing education has been built much like the Winchester House -- with endless add-ons, modifications and whims shaped by court dictates, initiative mandates and statutory compromises. The goals of equity of opportunity and adequacy of educational outcome have been acknowledged but rarely directly or effectively addressed by such hit-and-miss reforms.



Public schools command the largest share of government dollars across the nation.

California is not alone in struggling with education financing. The State has been a leader in some reform areas: in equity litigation with the groundbreaking *Serrano* suit and in altering the link between property taxes and school funding with Proposition 13. In others, it has lagged behind, lacking a consensus on what constitutes an adequate education, such as developed by Kentucky, and lacking standards and testing that could link outcomes with investment, as pioneered by states like Texas.

People who want the education system to work better face a tough battle. The system is being pressured to produce better results, use limited dollars efficiently and ensure equal access to opportunity. The

Education Commission of the States has pointed out that education financing structures do not support those goals:

> *As it stands now, the way public schools are funded is unsupportive of, unrelated to or stops short of promoting higher student achievement. For example:*
>
> - *Finance focuses on equity and adequacy, but not necessarily on quality or higher student performance.*
> - *Finance uses formulas, mandates and reimbursement programs, but rarely incentives and rewards for school improvement.*
> - *Finance focuses on districts, rather than schools -- and schools are where learning occurs.*
> - *Finance decisions are made by fiscal committees and budget officers, who rarely collaborate with education committees and educators.*[38]

The Education Commission of the States suggests there are four policy questions that should drive decisions about education financing. The first two questions have always dominated discussions and reform efforts: 1) What taxes should be used to pay for schools and 2) how should money be distributed in equitable and adequate ways? But the second two may be far more important in terms of redirecting the education system through the use of financing tools: 3) How should resources be invested to improve student and system performance and 4) what are the costs of reforming education and schools?[39]

With reading scores for elementary school students ranking at the bottom of the nation, California policy makers have good reason to address these four questions. Faced with a convoluted, difficult-to-understand financing mechanism, policy makers may wish to pursue other choices that will shift education discussions from process and paperwork to achievements and outcomes. The following five findings and associated recommendations are designed to encourage both discussion and action.

Simplicity

- *A district's revenue limit is the minimum amount a district can count on receiving in state funds and local property taxes for each child attending school daily -- but because of modifications, there are multiple figures for each district.*

- *Almost $11 billion reaches schools in more than 70 separate programs known as categoricals -- but despite the policy intent of each program, funding is rarely linked to actual student need or program costs.*

- *The complexity of revenue limits and categorical programs results in extensive paperwork, public confusion, misdirected energies, misfocused incentives and many inequities.*

- *California spends more than $3 billion on a Special Education program that is widely recognized as inequitable and inadequate.*

Simplifying the System

Finding 1: The present education funding system is convoluted -- driving up administrative costs, diverting attention from educational concerns and depriving the public of readily accessible, comparative information.

Money reaches districts, school campuses and individual classrooms through complex formulas that are difficult to understand and that are constantly manipulated by state policy makers, state bureaucrats, school administrators and outside consultants. The convoluted system is very difficult for the public to understand -- and therefore to trust and support. In addition, the system is expensive for the State to administer and oversee for fiscal accountability. The same is true for districts, whose decisions are sometimes driven by financial factors that have only a tenuous connection with educating children.

None of these education financing problems is unknown to the people who make the rules and the people who live under them. The Legislative Analyst's Office, the Department of Education and the Department of Finance are under legislative direction to deliver a report this year on streamlining the basic system of providing funding to schools. In the past, the Legislative Analyst has urged reform of the system, as well as changes in the way earmarked funds are delivered to schools. The Constitutional Revision Commission and many education-specific think tanks have advanced the rationale for simplifying the system.

But the problems and complexity have stubbornly persisted and in many cases grown more so despite the decades of calls for reform. The

following sections detail the two major elements that make the system complicated: revenue limits and categoricals. In addition, they provide examples of the consequences of complexity and describe various proposals for reform.

The Elements of Complexity: Revenue Limits

The base funding for school districts is known as the revenue limit -- the minimum amount a district can count on receiving in state funds and local property taxes for each child attending school daily. If the district's share of property taxes is less than the revenue limit, then the State provides enough funding to make up the difference.

Even if the district's property tax resources exceed the revenue limit, then the State still provides $120 per unit of Average Daily Attendance (ADA) -- the "basic aid" that the Constitution requires the State to give each school district at a minimum. Out of 1,000 school districts, there are about 60 basic aid districts -- mostly rural or sparsely populated districts with high assessed valuations.

Revenue limits are a product of history and policy decisions molded by court actions -- rather than a calculation of the cost of the elements that add up to an adequate education. As described in the Background, the *Serrano* decisions prompted the Legislature to create revenue limits as a starting point for equalizing the ability of districts to raise funds. The revenue limits were benchmarked in 1973-74 to each district's general purpose revenues per Average Daily Attendance (ADA) for 1972-73. Thus, already-existing disparities in resources and levels of local commitment to funding education were locked into place.

Then, to begin the equalization process, variable cost-of-living adjustments (COLAs) were applied to the revenue limit. If a district had a revenue limit below the state average revenue limit, then it received the full percentage COLA. If a district's revenue limit was higher than the statewide average, then the district received a smaller percentage COLA. Over time, this process was designed to squeeze the wealthy districts and raise the poor districts until -- theoretically -- everyone met at the same point.

In 1983, the percentage COLAs were replaced by a flat amount that each district received per ADA. Equalization was provided through special additional funding designed to bring the lowest districts up to the statewide average. Each year, this creates a new, higher statewide average that below-average districts needed to be raised to.

The choice to benchmark revenue limits to historical funding patterns created a slow equalization process. A faster way would have been to simply take excess property taxes away from wealthy districts and redistribute them to poor districts -- a Robin Hood approach that provides instant equity but displeases taxpayers in wealthy districts and creates

the potential of moving all education programs to a mediocre level by slashing high-spending programs. The least-politically disruptive method of achieving dollar equity was to guarantee all districts their historical level of funding and then give low-spending districts incrementally larger increases to begin to close the gap.

Simple in theory, the method has proven complex in reality. First, while the *Serrano* decisions defined equity as being within a spending bracket of $300 (as adjusted for inflation), the courts allowed six different categories of equity. This recognized that small districts have disproportionately high costs for administration, that elementary districts are less expensive to staff than high school districts and that unified districts (encompassing both elementary and high school programs) fall in between.

Average Funding Limit Per ADA, 1994-95		
Type of district	***Small***	***Large***
Elementary districts	$4,103	$3,317
High school districts	$4,560	$4,070
Unified districts	$3,743	$3,518

Source: Department of Education

The Serrano decisions acknowledged the varying costs in running different types and sizes of districts, establishing six categories for equity.

As the table above indicates, equity does not mean equality: The average revenue limits for 1994-95 ranged from $3,317 at large elementary districts to $4,560 at small high school districts. (By definition, a large elementary school district has more than an average of 100 children attending daily (Average Daily Attendance or ADA), a large high school district more than 300 ADA and a large unified school district more than 1,500 ADA.)

Second, because there are 1,000 different school districts, there are 1,000 different revenue limits. That means that a child has a different revenue-raising potential that is dependent on the district the child resides in rather than on individual educational needs. Johnny Smith and Bonnie Brown -- first graders with similar socio-economic backgrounds and educational aptitudes -- may generate for their

Range of Expenses Per ADA, 1993-94		
Type of District	***ADA***	***Cost***
Unified districts		
Low spending	1,272	$3,417
High spending	47	11,749
High school districts		
Low spending	12,017	$3,670
High spending	31	47,434
Elementary districts		
Low spending	104	$2,851
High spending	40	16,357

Source: Department of Education

Spending by school districts varies widely, especially if they are small. The highest and lowest spenders are outside the Serrano $300 band that brackets the state average per-pupil expenditure.

different elementary schools $3,150 and $3,450 respectively for no better reason than that they live in different parts of the state. Multiplied over a district's entire population, the $300-per-student difference allowed under *Serrano* can have a substantial impact on the resources available to a school and a district.

Although approximately 97 percent of students attend districts that have funding within the prescribed $300 band, many of the lowest and highest spending districts -- which as the ADA figures in the table on the previous page indicate have relatively small numbers of students -- fall outside the allowed range.

Although a level of court-accepted equity has been achieved and disparities outside the $300 band affect only small numbers of students, researchers have noted that there are patterns of inequity within the band. Urban districts receive about 7 percent less and suburban districts about 6 percent less than the state average, while rural districts -- helped by funding that compensates small districts for diseconomies of scale -- receive about 9 percent more. Urban districts make up the difference in categorical funding, the special earmarked funding not affected by *Serrano* that will be discussed in the next section: They receive 44 percent more than the state average in categorical funding.[41]

The third factor that plays a role in funding complexity are the adjustments, limitations and choices that may apply to all districts, be imposed on some districts or be selected by other districts. For instance, while the revenue limit began as a figure keyed to 1972-73 expenditures, the Governor and Legislature have made multiple adjustments over the years, including providing funding for equalization, longer school days and years and other modifications. One example is an amount that is subtracted from each district's revenue limit to recapture for the State a reduction in retirement contributions that employer/school districts must make to the Public Employees Retirement System.

Another adjustment is an artificially created gap between actual and "required" funding. During the recession of the early 1990s, revenue limits were allowed to increase by the COLA amount dictated by statute -- but actual funding provided by the State and property taxes was less. Better economic times have not reversed the situation and past COLA deficits have not been recouped by districts. The COLA required in 1995-96 was the first fully funded increase of the 1990s. But the COLA deficit accumulated since the 1990-91 fiscal year means that schools are being funded at about 10 percent less than their base revenue limits.[42]

In addition, there are limitations imposed on basic funding for districts. School districts with high revenue limits -- theoretically the amount they receive for each unit of ADA -- are not allowed to collect full funding for student population growth. Instead, they are limited to 105 percent of the state average revenue limit for their type of district for each unit of

ADA above the 1982-83 attendance. This limits the State's share of costs and pushes high-spending districts closer to the state average ability to raise revenues.

Finally, there are choices that school districts may make about their revenue limit. At various times, districts have been given the choice of rolling some types of funding -- such as transportation and supplemental grants -- into their revenue limit rather than continuing to receive funds in specific categories. For each school, the best decision may be different depending on shifts in student population, needs and school conditions. As a result, revenue limits for schools do not always cover comparable budget items.

Because of the different modifications -- some imposed and some chosen -- there are five different revenue limits, according to the Legislative Analyst's Office, which provides the following definitions:[43]

- ***Statutory Base Revenue Limit*** -- The revenue limit defined in statute. Based on 1972-73 actual funding plus COLAs and equalization and other adjustments that have been provided subsequently.

- ***Equalization Base Revenue Limit*** -- Equal to the statutory base revenue limit less additional funds for longer school day, longer school year and minimum teacher salaries. Used for revenue limit equalization, this limit divides districts into six categories based on type of school and size.

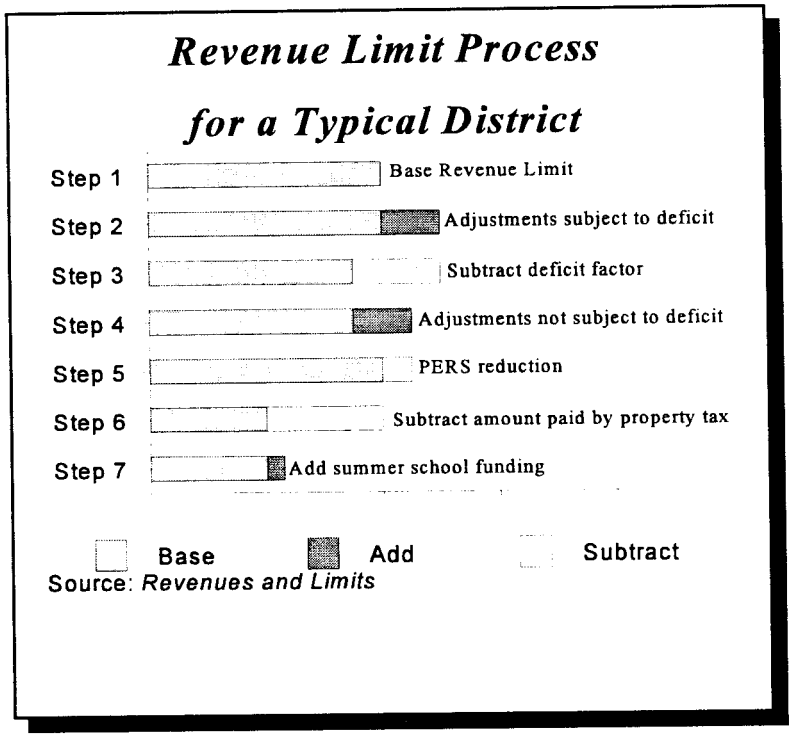
- ***Blended Revenue Limit*** -- Equal to the district's statutory base revenue limit multiplied by the ADA enrolled in 1982-83 and 105 percent of the statewide average statutory base revenue limit multiplied again by any growth in ADA since 1982-83. Applicable only for about 161 districts that have revenue limits in excess of 105 percent of the state average.

- ***Deficited Base Revenue Limit*** -- Equal to about 90 percent of a district's statutory or blended revenue limit. The deficit factor reflects the experience of the early 1990s when revenue limit entitlements were inflated by statutory COLAs each year, but were not fully funded in the annual budget acts. All school districts are affected by this adjustment, which represents the gap between an artificial revenue limit and actual cumulative increases in funding.

- ***Adjusted Funded Base Revenue Limit*** -- Equal to the deficited base revenue limit less recaptured savings in the Public Employees Retirement System (PERS) costs. With the exception of San Francisco Unified School District, which is not part of PERS, every school district has a unique PERS adjustment.

Determining what revenue a district can count on, therefore, is a multi-step process. The paperwork to calculate a district's revenue entitlement exceeds two dozen pages. Even a "simple" diagram, when accompanied by a step-by-step explanation, makes it clear that the determination of a district's revenue is complicated. *Revenues and Limits: A Guide to School Finance in California*, a widely acknowledged "bible" for school finance, offers a diagram similar to the one below and the following description, along with 40 pages of more detailed explanation to assist schools in filling out state forms:[44]

Step 1: The base revenue limit is equal to the prior year's limit before any deficit, with add-ons for supplemental grants the district may have chosen to fold into the limit and for equalization aid. This amount is multiplied by the ADA, which can be altered by the 105 percent limitation for ADA growth over 1982-83 for high-spending districts.



A typical school district must go through multiple steps to figure out a final revenue limit.

Step 2: Added to the new base revenue limit are adjustments that are subject to the COLA deficit, such as the money for meals for needy students.

Step 3: A deficit factor is then applied to the revenue limit to reflect the shortfall in funding since 1990-91.

Step 4: Adjustments are then added that are not subject to the deficit, such as amounts for unemployment insurance and continuation high schools.

Step 5: An amount that reflects the State's recapture of the lower employer payments to PERS is subtracted.

Step 6: The amount from Step 5 that will be covered by the district's share of local property taxes is subtracted, leaving the amount of state aid required.

Step 7: The state aid is increased by allowances for summer school.

In each of the steps above, the school district must calculate its entitlement, making a variety of choices. For instance, before reducing the revenue limit to adjust for the PERS recapture, a district should determine what salaries may be excluded from this provision, including those that are funded federally or those that are court or federal mandates. In another example, mandatory summer school offerings for certain students are funded at one rate for growth in hours over a 1983-84 base year and a different rate for non-growth hours. There is no cap on funded hours, unlike the non-mandatory summer school program -- where the cap pertains to hours but is based on 7 percent of the district's enrollment.

The examples above -- each with their own twists and turns -- all deal with a school district's basic funding for each child. This revenue limit funding makes up a little more than two-thirds of all school support. The complexity only increases when the focus turns to the other funding mechanisms, known as categorical programs.

The Elements of Complexity: Categorical Funds

About $10.8 billion reaches school districts through more than 70 separate programs known as categoricals. Funding comes from both the State and the federal government, but by far the largest amount is from the State. In general, categoricals are programs that define how money can be spent. Most sources define three types of categoricals:

- ***Special needs*** -- These programs address the needs of certain types of students, such as special education, economically disadvantaged and non-English-speaking students. Special Education is the single largest categorical program, with about $2 billion in combined state and federal funding this year. (The funding process for Special Education will be examined in Finding 2.)

- ***Special costs*** -- Some districts face high costs that other districts do not. For instance, if there is a court-ordered desegregation plan, then districts receive funding to cover transportation and other costs associated with carrying out the order. Other districts may have unusually small schools that are costly to administer but that are not feasible for consolidation because of geography.

- ***Incentives*** -- The State often encourages school districts to take specific actions or implement certain programs by offering partial funding in a categorical program. For instance, school-based decision-making is encouraged by the School Improvement Program, which provides extra funding to districts that shift control of program and budgetary choices to local schools. Another example is last year's funding for schools that reduced the size of kindergarten, first- and second-grade classes. The

class-size reduction program was not a mandated program, but a choice that districts could make. The State offered partial funding in return for a district's commitment to lower class sizes to 20.

An exact count of categoricals is difficult. Some programs may be double counted because they show up in the state budget twice -- in both a general listing and a budget category known as the "mega-item." Some categoricals have multiple branches of programs under them, such as staff development, which includes administrator training, geographical education and intersegmental programs. And some are not clearly defined as categoricals -- such as state lottery funding, which is largely unrestricted in terms of spending but which is outside of basic revenues.

The listings provided below and on the following page are from the State Department of Education's Management Bulletin 96-05. They indicate a total of $8.5 billion for general categoricals and $2.3 billion for mega-item categoricals in 1996-97.

K-12 Education Programs in the 1996-97 Mega-Item			
Ag. Voc. Ed.	$3,591,878	Miller/Unruh Reading	$29,062,290
Amer. Indian Ed. Cntrs	$2,298,334	Native American Ind Ed	$427,735
Child Nutrition	$58,225,525	Partnership Academies	$4,966,523
Class Size Reduction	$32,337,149	Pupil Transportation	$429,863,489
Court-Ordered Deseg.	$448,368,775	School-Based Manage.	$890,630
Demo. Progs. Read/Math	$5,397,796	School Improvement	$360,403,012
Drop-out Prevention	$17,293,071	School Restructuring	$26,423,101
Economic Impact Aid	$366,319,646	Staff Development	$104,460,489
Education Technology	$50,287,921	Student Voc. Ed. Orgs.	$98,491
EISS	$1,689,604	Supplementary Progs.	$12,791,228
Environmental Ed.	$462,939	Teacher Dismissal	$30,933
Gifted and Talented Ed.	$40,746,552	Tenth Grade Counseling	$13,328,561
Institute/Computer Tech	$446,935	Voluntary Deseg.	$93,133,901
Instructional Materials	$157,141,003	Year-Round School	$62,808,691
Total Budget for Mega-Item Programs			**$2,323,296,202**

Source: Department of Education

The State budget has some categorical programs separately and groups others in a listing known as the mega-item, as shown above and on the facing page.

1996-97 K-12 Education Programs Not in Mega-Item			
Adult Education*	$477,403,000	Learn/Serve America**	$2,131,000
Adults in Prisons	$13,976,000	Library Protection	$12,345,000
Apprentice Program	$8,256,000	Los Angeles Co. Reorg.	$1,000,000
Byrd Scholarship**	$3,440,000	Lottery	$638,262,000
Non-Recurring Costs	$200,000,000	Mandate Reimburse.	$123,677,000
School-Site Block Grnt.	$387,000,000	Math/Sci Teacher**	$24,226,000
Title I ESEA**	$733,964,000	Merit Diploma	$1,000,000
Title I Migrant**	$107,448,000	Police Sciences	$50,000
Character Education**	$175,000	Pregnant Minor	$175,000
Charter Schools**	$691,000	Pupil Residence Verify	$151,000
Title IV ESEA**	$27,380,000	Pupil Testing	$25,153,000
Child Development*	$644,285,000	Reading Initiative	$15,000,000
Child Nutrition*	$999,146,000	ROC/Ps	$271,694,000
Class-Size Reduction	$971,000,000	School Crime Report	$1,001,000
Community Day School	$52,593,000	School/Law Enforce	$4,481,000
Continuation Schools	$2,806,000	School Violence Reduce	$4,200,000
Credential Monitoring	$350,000	Single Gender	$5,000,000
Cnty. Fiscal Oversight	$3,250,000	Special Education*	$2,115,182,000
Deferred Maintenance	$50,000,000	Sp. Ed. Rehab Match	$206,000
Drug-Free Schools**	$36,844,000	Staff Development	$3,249,000
Emerg. Emigrant Ed.**	$18,209,000	Standard Accounting	$4,000,000
Environmental Ed.	$800,000	Student Voc. Ed. Orgs.	$562,000
Equalization	$147,100,000	Summer School	$155,224,000
Gang Risk Intervention	$3,000,000	Targeted Truancy	$10,000,000
Healthy Start	$49,000,000	Tobacco Use Prevent.	$42,500,000
Indian Ed. Centers	$376,000	Vocational Ed. JTPA	$7,531,000
Intergenerational	$171,000	Vocational Ed.**	$110,049,000
Total of Non-Mega-Item Programs			**$8,516,712,000**

Source: Department of Education * State and federal funding ** Federal funding

The mega-item groups the funding for more than two dozen categoricals in a single budget listing. Originally intended by the Legislature to protect certain programs from being blue-penciled by the Governor, the mega-item gives districts limited flexibility to move up to 15 percent of funds from one category to another and to increase a single category as much as 20 percent as long as all of the programmatic requirements are met.[45]

The mega-item has not met with universal approval: Some districts complain that there is not enough flexibility and some program advocates charge that districts have used the flexibility to keep the costs of programs from infringing on general education money rather than to expand services in specific areas of need. Special Education, originally in the mega-item, was removed under strong pressure from advocates who felt flexibility was being used by districts to shortchange Special Education needs. Nonetheless, many experts continue to push for more flexibility of expenditures at the local level as the best way to blend services and meet student need. But from a purely structural perspective, the mega-item approach is one more complication of the education finance system that requires further reporting and tracking of expenditures in unique ways.

Unlike a school's basic funding, categoricals are not necessarily tied to pupil count or the actual costs of providing services. For instance, a district receiving funds for Gifted and Talented Education (GATE) does not receive a larger amount if it identifies more students as eligible for the program. Once a district has more than 50 GATE students, the allocation is a set amount -- about $7 -- multiplied by the district's ADA.[46] Another example is the distribution of Economic Impact Aid funds, assistance for schools with high concentrations of students with special needs. The bulk of these funds are distributed with a formula that focuses on maintaining at least 85 percent of the district's prior year funding regardless of the number of students who need services.[47]

Also unlike basic funding, few categorical programs are increased each year for cost-of-living adjustments. That means a district may participate in a categorical program the first year it is offered and then find that the state funding is less and less able to cover program costs as inflation occurs each year.

Despite the lack of COLAs, growth in categorical funding has been much faster than the growth in general funding. Between 1982-83 and 1991-92, the K-12 budget grew faster than inflation and enrollment growth by 11.1 percent -- but general revenues increased only 5.5 percent during this time.[48] The share of education funds going to categoricals grew from 13 percent in 1979-80 to more than 29 percent in 1991-92.[49]

There are several reasons for this fast-paced increase in categoricals. As a practical matter, implementing change is much cheaper if a program is voluntary rather than mandated. For each dollar per student that a program costs, systemwide implementation requires $5.6 million in

funding. Multiplying that by the tens or hundreds of dollars per student that a program might cost quickly reaches a staggering amount that is an effective barrier to reform. One often-used alternative is to create a categorical that offers districts partial funding as an incentive for implementing the desired reform -- limiting both the number of students affected and the State's share of the overall cost.

Politics enters into the decision to increase categorical funding, as well. Researchers have indicated that districts have learned to band together and lobby for specific, limited types of funding because success is more likely than when educators are seeking changes that require systemwide dollars.[49]

In addition, many members of the Little Hoover Commission's advisory committee pointed out that politicians enjoy taking credit for delivering increased funding for specific popular programs, such as class-size reduction.

Conversely, politicians receive scant public praise for increasing base funding for schools. Commission advisory committee members also pointed out that some politicians fear that increases in basic school funding may be bargained away at the local level for higher salaries, an option not available to school boards if funding is tied up in a categorical program. These politicians prefer to see increased funding spent for reforms, supplies or enhancements rather than salary adjustments.

Categoricals: A History Lesson

Like the revenue limit system, the categorical programs have been the subject of reform for many years, with waves of consolidation efforts, followed by the creation of new categoricals as State priorities shift. One long-time education consultant and observer wrote:

> *Each of the many categorical funding allocations presently existing in California (and for that matter in Washington, D.C.) were created because some individual or group felt that schools would serve students better if more or less money was spent on a particular category. A review of the history of categorical funding indicates that California has actively intervened in the education of its children for a long time....*
>
> *A review of the history also finds that all reform movements began by trying to consolidate categoricals and ended up creating new categories as the reformers try to mold schools to fit the reform trend.*

Source: Education expert John Mockler, 1987 testimony to the Governor's Commission on Educational Quality

What history reflects is that the well-entrenched education financing system is not unchanging -- it grows more complex all the time. With two-thirds of education funding coming from a complicated base formula and the other third from restricted programs, school districts, the State and taxpayers face a variety of problems stemming from the financing mechanisms.

Consequences of Complexity

No one has placed a price tag on administering school finances and ensuring compliance with restrictive requirements. There has been no calculation of the diverted energy or resources that may be better spent on teaching students. And no study has quantified the portion of taxpayer disillusionment with education that stems from the financing complexity.

But there are real monetary costs that are a direct result of the way the education finance system is set up and many sources acknowledge a myriad of problems. These include:

■ ***Extensive paperwork.*** Each of the 1,000 districts each year calculates its revenue limit using a 30-page form that accounts for the myriad of adjustments, add-ons and subtractions that districts are allowed or forced to take. In addition, categorical programs have their own paperwork, justifying district eligibility and documenting expenditures. Teams of district personnel to fill out the paperwork are matched by teams of state workers to check it. In addition, most school districts of any size spend money on consultants for advice on how to maximize funding or pass audits.

A recent study by the Rand Corporation indicates that districts with high amounts of categorical funding spend a disproportionate amount on administrative duties that are linked to those programs.[50] While no one the Commission talked to could estimate the cost on all sides, most agreed it was in the multi-millions of dollars statewide.

■ ***Public confusion.*** Neighboring districts with similar demographics and programs may have varying revenues because of historical spending patterns (reflected in the revenue limits) and/or individual district choices. This makes it difficult to ensure that comparisons made by the public are not apples versus oranges.

State officials told the Commission the problem has been particularly noticeable in the past few years when the State did not fully fund the cost-of-living adjustments -- and then eventually began supplying additional funding to make up for some of the deficit in annual increases. Citizens who try to compare their district's revenue limit with another's may not know whether they are dealing with revenue limits before or after adjustments for deficits, summer school and other factors. Even if they know what they are comparing, the fact that there are differences unrelated to educational need leads to public dissatisfaction.

■ ***Misdirected energies.*** Documenting eligibility or compliance may require a district to concentrate on non-educational activities. For instance, Average Daily Attendance is a key figure in many education finance computations. As the Little Hoover Commission has noted in a prior study, California is the only state that counts pupils who are

present each day and then allows a district to add in students who have documented that absence was due to illness. While some state officials have argued that this provides a district the incentive to work against truancy, the practical effect is to devote school attention to collecting "sick" notes from parents rather than educating children.

■ ***Misfocused incentives.*** If a district knows it can maximize funding by taking certain steps or making certain decisions, it is likely to be influenced in its choices by something other than specific local educational needs. For instance, schools have little incentive to reclassify children as proficient in English since having large numbers of children that have limited English proficiency increases a district's eligibility for aid.

Another example is the class-size reduction program. Districts were under heavy public pressure to participate since small classes are very popular with parents. But one district official told the Commission he believed a higher priority for his district would have been computers and technology in high school if the district had been free to make a decision on spending the funds in a way that met local needs.

A third, small example of choices that are not focused on education was the decision of a charter school to move from one district's sponsorship to another in 1996 (the physical location of the school remained the same). The district losing the charter school enrollment gained $250,000 in assistance for districts with declining enrollment. The district gaining the charter school grew large enough to support speciality services that are difficult to provide when a district drops below 600 students. The impact on the students and their education? According to those involved, none.[51]

■ ***Categorical inequity.*** Categorical funding was left outside the Serrano decision's

Similar Need, Disparate Funding

Categoricals are designed to meet special needs and special costs that districts face -- but the programs do not always do so equally.

The inequity among districts with similar needs was highlighted by a University of California researcher who showed that urban districts with similar or less concentrations of minority students -- and substantial political clout in the Legislature -- received far more desegregation funding than Sacramento Valley districts with arguably more pressing needs and demonstrably less clout. San Jose, for instance, received $1,575 for each minority student while Sacramento received $14. The researcher, who noted that "supplemental grants" created in 1989 also do not relate to need, wrote:

> *The analysis in this article suggests that in most instances categorical funding decisions reflect legitimate differences in student composition or extraordinary costs among school districts; in other instances, however, they reflect differences in political control over the state budgetary process....The data show that desegregation aid goes primarily to urban districts and that the level of funding is unrelated to the number of black and Hispanic students in a district.*

Source: Thomas B. Timar, UC Berkeley researcher

mandate for equity because it supposedly addresses special needs or costs. But categorical funding in most cases is not reviewed each year to determine shifting need, nor are programs assessed to determine if they are effective.[53]

While categoricals can increase administrative overhead, they also stretch dollars in ways that are not available to districts that are not eligible for categoricals. For instance, a principal is necessary regardless of a school's special needs. In a district with special needs, a portion of a principal's salary may be paid with categorical funding; in a district with only basic revenues, the principal's salary cannot be defrayed. Just such an argument led in 1989 to the State creating supplemental grants for schools that had low revenue limits but could demonstrate no special need and therefore were getting less than their "share" of categorical funding. The creation of a special-needs funding pot for schools with no special needs has been viewed with some sense of irony by many education critics and commentators.[54]

In addition, one district may have qualified for a categorical program when the program was created and may continue to receive funds even if district needs have changed. Another district that did not qualify when the categorical was created may now have similar needs -- but funding limitations may prevent the new district from fully participating in the categorical allocation.

■ ***Categorical encroachment.*** The State does not pretend to fully fund the programs required in return for categorical funding eligibility. From the State's perspective, the required district funding represents a local match that ensures local efforts to be efficient and local ownership of and investment in the program. From the districts' perspective the shortfall encroaches on basic funding that should be used for general education purposes.

A study of three categoricals, Special Education and two involving transportation, demonstrated that encroachment for these three categoricals in 88 districts in the early 1990s represented only about 6 percent of a average district's total budget -- a seemingly small amount. But when looked at from the perspective of uncovered costs, the study showed that an average of about 30 percent of Special Education and 60 percent of transportation costs had to be paid by general funds in those districts.[55]

The problems arising from this are particularly evident in Special Education, which will be discussed in the next finding, and the class-size reduction program. District officials have complained loudly that the shortfall in funding for small kindergarten through third-grade classes means that they must chop away at programs that now serve fourth grade and up to balance their budgets.

■ ***Rising tensions.*** The separation of funding into distinct pots of money when the total amount of education dollars is a relatively fixed

amount under Proposition 98 causes different interest groups to fight against each other for funding advantage. These tensions play out in the Legislature, within districts and at individual schools. The turf battles over who will get funding and who will lose funding makes it difficult to focus on overall educational needs.

The problems arising from school financing complexity have become deeply entrenched. Districts are hesitant to embrace reform proposals or to advocate change because unintended and unsuspected consequences may leave them in worse financial shape. A large district like Los Angeles Unified School District wants to ensure in any given year that not only does it get at least as much funding as it would under any prior formula but also that it will get its "fair share" -- about 12 percent based on student population proportion -- of any new funding poured into the education pot to allow reform.

In addition, as already mentioned in connection with categoricals, it is much more enticing for policy makers to take credit for funding specific programs than to face the maelstrom that could erupt if full-scale reform were attempted. Unraveling something as complex as revenue limits and categoricals usually does not top the agenda of those pressing for education reform -- although most agree that the way education is financed drives many of decisions that shape schools and their offerings.

Despite these effective barriers that bolster the status quo, the calls for reform have come from many quarters and have persisted for many years.

Reform Proposals

As indicated in the Background, much of what school financing is today grew out of the *Serrano* decisions, molded by initiatives and shaped by the interplay of the economy, state resources and competing demands. But even the *Serrano* court acknowledged there was no one, single answer to reforming school financing. The justices wrote:

> *There exist several alternative potential methods of financing the public school system of this state which would not produce wealth-related spending disparities. These alternative methods, which are "workable, practical and feasible," include: 1) full state funding, with the imposition of a statewide property tax; 2) consolidation of the present 1,067 school districts into about 500 school districts, with boundary realignments to equalize assessed valuations of real property among all school districts; 3) retention of the present school district boundaries but the removal of commercial and industrial property from local taxation for school purposes and taxation of such property at the state level; 4) school district power equalizing, which has as its essential ingredient the concept that school districts could choose to spend at different levels but for each level of expenditure chosen the*

tax effort would be the same for each school district choosing such level whether it be a high-wealth or a low-wealth district; 5) vouchers; and 6) some combination of two or more of the above.[56]

It is notable that *Serrano* was resolved without following any of the court-offered mechanisms -- all of which envisioned the State starting from scratch to build a different financing system.

One of the most vigorous voices for reform has been the Legislative Analyst's Office, which for many years has urged changes in both the revenue limit system and the categorical programs. In a 1993 report about categoricals, the Legislative Analyst reached several conclusions:

√ Categoricals do a good job of allocating resources to specific programs.

√ Because programs are not evaluated, little is known about how well specific programs work.

√ Categoricals encourage districts to focus on process rather than outcomes.

√ Funding formulas can reward district decisions that are not in the best interests of students.

√ The system of categoricals promotes fragmentation of services at school sites.

The Legislative Analyst recommended increasing flexibility to allow local control; clearly identifying program goals; rewarding schools for good performance; consolidating and simplifying programs; and encouraging a system that responds to feedback about performance.[57]

In testimony to the Little Hoover Commission, the Legislative Analyst specifically recommended collapsing 21 categoricals into four block grants: school improvement, staff development, a two-party compensatory education to meet special needs and to provide alternative education settings and K-12 evaluation. Other categoricals would continue, including transportation, year-round schools, child nutrition and Gifted and Talented Education.[58] This consolidation plan was endorsed in an April 1995 report by Policy Analysis for California Education, a widely recognized education reform advocacy group.[59] And it has been echoed in legislation last year and this year by Senator Deirdre Alpert and Assemblyman Steve Baldwin.

As this report is being written, the Legislative Analyst's Office indicated work is still going forward on a joint report with the Department of Finance and the Department of Education on ways to simplify the revenue limit mechanism. The Legislative Analyst told the Commission that two elements of the report should be to re-benchmark the revenue

limit so there is only one single figure for each district rather than the five types that exist now and to have districts pay any increases or benefit from any decreases in PERS contributions rather than making adjustments for the State to recapture these funds.

The Legislative Analyst also urged a return to variable percentage COLAs to put the State back on track toward equal revenue limits for all schools at some point in time. The current flat-rate COLAs promise only that percentages of differences between revenue limits will grow smaller but never disappear.

Finally, the Legislative Analyst recommended that the State eliminate "basic aid" payments to districts that have excess property tax revenues. These 56 school districts, which earn about $70 million in property taxes above revenue limits, collect another $11.2 million in aid from the State at the rate of $120 per student as dictated by the Constitution.

Because these payments give already-high-wealth districts even more revenue, the Legislative Analyst recommended following a Legislative Counsel opinion about the constitutional provision that the required aid can be of any type including categorical programs. Most, if not all, of these districts would already receive enough state aid

Starting From the Ground Up

Bill Whiteneck, a long-time and widely respected legislative education consultant, told the Education Summit in 1994 that any school funding system should meet five criteria: adequacy, equity, simplicity, incentive-based and clear funding authority. He offered the Little Hoover Commission his detailed perspective on how education finance should be reformed. His plan begins with the reorganization of districts:

- Create unified K-12 districts, each with roughly 15,000 students and three or fewer high schools with feeder elementary schools.
- Distribute all property tax revenue within a county on an equal basis to all schools rather than differentiating property taxes district by district.
- Change the current Average Daily Attendance system to a pupil enrollment basis.
- Fund school operations through five formulas:

  √ **General Purpose Revenue Limit** -- a single, equal revenue limit for all districts at a rate that would place California per-pupil spending in the top national quartile.

  √ **Special Education for Disabled Pupils** -- 15 percent of the revenue limit times the district's enrollment.

  √ **Compensatory Education for Economically Disadvantaged Pupils** -- 10 percent of the revenue limit times the number of pupils in the district that meet an economic criteria that is outside the district's control.

  √ **School-Site Instructional Improvement** -- 5 percent of the revenue limit times the enrollment, to be used for staff development, instructional materials, etc.

  √ **Pupil Transportation** -- 75 percent of the district's transportation costs for the prior year (or 70 percent if the district charges parents).

and the State could divert the $11.2 million to other more needy districts.[60]

Other bodies have offered reform advice. The California Constitution Revision Commission was silent about revenue limits and categoricals in its August 1996 report and recommendations. The Commission did, however, focus on the restrictive nature of Proposition 98, which requires that any new appropriation made in one fiscal year become part of the base funding for the next year. The Commission wrote:

> *This provision can have a "chilling effect" on any consideration to provide funds above the minimum in a given year because such an increase will result in that new amount setting a new minimum for the following year. Future augmentations might be considered favorably if any augmentation "over the minimum" Proposition 98 funding guarantee could be a one-time practice rather than being built into the future minimum base.*[61]

The Commission recommended more flexibility be infused into Proposition 98 without losing the basic guarantee for school funding.

EdSource, a non-profit education information center in Palo Alto, offers a menu of questions and choices rather than any specific recommendation about financing reform. Possibilities include a weighted-pupil system that reflects the cost of meeting different educational needs; improving efficiencies by centralizing some functions, regionalizing services and consolidating school districts. Calling for a "systematic review, straightforward evaluation and bold revision," the center wrote:

> *An ideal school finance system would be stable, predictable, locally flexible, reasonable to administer, accurate in its data and adequately funded. It would have goals, methods for monitoring and reporting, assurance of equity, and provision for special needs and special factors, such as different financial capacities.*[62]

One long-time education expert, John Mockler of Strategic Education Services, gave the Commission a whimsically titled, but serious model to simplify and beef up education funding (see sidebar on next page right). His package, which totals $30.9 billion, provides the services that are now funded at the cost of about $26 billion (the costs of adult education, nutrition, pre-school and other services are not included). It would bring the per-pupil expenditure up to $5,700, or about 30th in the nation.

Reform advice has come from academics as well. Lawrence O. Picus, a prolific critic of California's financing system, as well as a University of Southern California associate professor and president of the American Education Finance Association, advocates simplifying revenue limits and categoricals -- and then sending most of the funds directly to the school, which can purchase services from the district if needed. Revenue limits

would be keyed to a certain year and then adjusted each year by whatever increase is allowed by the State, tossing out the 30-page form and detailed calculation of revenue limit status. Categoricals would be reduced to three: student needs, special district characteristics and program improvement. Each of these would be directly related to current student and district needs rather than historical spending patterns.[63]

In remarks presented to a national forum on education, Picus wrote:

Unlike most other states, California has not comprehensively evaluated and revised its school funding formulas in nearly 20 years. Instead, it has added layers and layers of complexity to the system to deal with special circumstances as they come about. It is time, in my view, to tear down the existing structure and build a new system from the bottom up....[I]t should focus on directing resources to the school level and providing funding on the basis of student needs, not historical artifact.[64]

5-Page Simple and Basic Adequate Plan
(or elimination of the silly, multi-hundred page school funding and pork system)

Page 1 -- Basic Funding
Count the students enrolled in your district. For elementary grades, receive $4,000 per student. For high school, receive $5,000 per student. **Cost: $23.3 billion**

Page 2 -- Special Needs of Students
Add $700 per enrolled student to pay for excess costs of Special Education services. Add $600 for each student in families below the poverty level as determined by criteria not under the control of districts. **Cost: $4.8 billion**

Page 3 -- Cost Variations
State will reimburse districts for 70 percent of the costs of services that exceed the average cost for such services in all districts and that are demonstrably unavoidable This includes transportation, desegregation, security, weather and small-size factors. **Cost: $1.4 billion**

Page 4 -- State Basic Stuff and Ongoing Reform
$250 per enrolled student to pay for technology, books, staff development, etc. **Cost $1.4 billion**

Page 5 -- Local Revenue Options
Each district would be allowed to level local taxes in excess of the basic model with approval of a majority vote of the electorate. State would provide equalizing funds.

Total Cost: $30.9 billion

Source: John Mockler, Strategic Education Services

Summary

It is widely recognized that the State's funding mechanism for education is complicated for reasons that have little to do with educational effectiveness or efficiency. The complexity, which grows each year with new adjustments and modifications, often hides inequities -- which, when discovered, are fixed with yet another set of adjustments and modifications.

A variety of education experts and advocates have called for a fresh start -- or at the very least, a benchmarking process that would shed the worst of the complexities. And there are incentives for policy makers to take on the chore of reform. Many experts believe that further litigation challenging equity -- particularly in the area of Special Education -- looms over the State if action is not taken. In addition, a public whose disenchantment with the current educational system has not been addressed by policy makers may turn to the ballot box with another effort to establish vouchers or some other type of reform.

These incentives, however, are nebulous and distant compared to the disincentives that exist. There are several barriers to reform, either wholesale or piecemeal, that eviscerate most efforts before they even get off the ground. These include:

√ A tendency for districts to embrace the status quo for fear of the unintended consequence of any reform efforts. This is particularly true for districts that believe they're entitled to whatever they received last year plus a "fair share" of any new education dollars. Such so-called "grandfathering" of funding makes it very difficult to identify sufficient funds to change the system.

√ A tendency for policy makers to embrace high-profile programs and sharply defined expenditures that they can take credit for rather than enduring the acrimony and hard work that would be required for large-scale reform of basic school finances.

√ A tendency for the public to embrace the promise of quick-fix, simplistic reforms -- like smaller classes and "back to basics" -- rather than to hold elected officials accountable for the perceived failure of schools to adequately educate children.

Surmounting those barriers will require leadership focused on building consensus for simplicity, accountability and efficiency as the hallmarks of an effective education finance system.

Recommendations

Recommendation 1: The Governor and the Legislature should redesign the education funding system to simplify formulas, redirect the focus to educational needs rather than process and ensure meaningful equity of educational opportunity.

California's education finance system is too complicated. It often acts as a stumbling block rather than facilitating the achievement of the goals of educators, policy makers and taxpayers. And the complexity has grown rather than diminished despite years of criticism and reform proposals by a variety of experts. Inertia, fear of the consequences of

a new system and divergent political perspectives make it difficult to change the system. Clearly, an extraordinary and well-focused effort will be required to achieve any wholesale reform.

Establishing a venue for reform is the first hurdle policy makers should address. To focus on overall reform rather than current resources and individual problems, the reform effort should be kept separate from the annual budget cycle. A special joint legislative committee, charged with an agenda of reform issues and a time frame for negotiations, could supply the framework for building consensus -- or at least acquiescence -- among key stakeholders. A similar process was used successfully in 1996 to address the deregulation of electricity and introducing competition to energy markets.

Once reform discussions are under way, specific changes that policy makers should make include:

- Adopting a Whiteneck-Mockler-style model that provides school districts with equal basic grants plus proportionate funding for special needs and special costs.

- Changing the pupil count method to eliminate the need to track daily attendance and absence excuses, instead relying on enrollment figures -- as other states do -- and using other mechanisms to target truancy.

- Amending the Constitution to allow one-time educational expenses that are not built into the Proposition 98 base, as recommended by the California Constitution Revision Commission.

- Eliminating current basic aid payments to high-wealth districts by adhering to the Legislative Counsel opinion regarding ways to fulfill the State's constitutional obligation, as recommended by the Legislative Analyst's Office.

- As a short-term measure, until comprehensive financing reform can be enacted, consolidating categorical funding in line with recommendations by the Legislative Analyst and the Alpert-Baldwin bill.

Simplifying Special Education

Finding 2: The funding system for Special Education is out of step with mandated programs, available resources, student needs and common sense.

Many of the problems with California's education finance system are magnified in the Special Education portion of the system -- and this is true despite the fact that Special Education is segregated from the regular education system structurally and is based on a completely different approach to funding. For example:

- Just as in the regular segment of the system, the Special Education program is marked with funding inequities, on both a child-by-child and district-by-district basis. There is little rational basis for the differences.

- In addition, adequacy of funding -- an often-debated concern in the regular education program -- is a key issue in the Special Education program, where the costs of providing mandated services to children quickly outstrip the willingness of state and federal policy makers to allocate funds.

- Finally, both systems seek accountability by measuring inputs and auditing procedures rather than by measuring student results. This is especially troubling in the Special Education system where the federal mandate is to meet the individual child's needs -- not to spend a certain amount of money on each student or to give them a certain set of services, but to provide them a meaningful education.

As part of its examination of California's education financing system, the Little Hoover Commission has approached Special Education solely from a funding perspective. The complex and often-emotional issues surrounding Special Education methods and entitlement are not addressed here. Instead, the focus is on how the funding mechanism affects decisions made by districts, parents and others and what steps hold the potential for improving efficiency and equity.

The Commission also is aware of ongoing reform efforts and prior studies documenting problems with Special Education funding. The intent of this finding is to summarize those efforts and broaden the input by including perspectives shared with the Commission during public hearings and advisory committee meetings.

The Mandate

The Special Education program is designed to meet the needs of individuals from birth to age 22 who have learning disabilities, developmental disabilities and other physical and mental impairments. Schools are mandated by federal law -- the Individuals with Disabilities Education Act originally passed in 1975 -- to serve the needs of these students in the least-restrictive environment through methods identified in individualized education plans (IEPs). In this context, "least restrictive" means a setting that is closest to a normal classroom with non-disabled children as allowed by whatever accommodations are needed.

Under federal law, the instruction must be both free and appropriate, delivered in a manner that permits the child to benefit from the services.

Special Education covers services that are related to education, including home-to-school transportation, speech pathology,

An Unlimited Mandate

Unlike any other students, Special Education students have a right to have their needs met in a manner from which they can benefit. That is a far swing of the pendulum from the time before 1975 when they were systematically excluded from public schools and their parents often were told they could be given no services.

Problems arise, however, in determining how far the mandate goes. In some cases, advocates for Special Education students have argued that districts should supply expensive, individual computerized equipment if that is what will best help a child learn. Districts -- which have limited resources and multiple demands -- must struggle to balance competing needs.

The federal reauthorization process is not expected to explore possible limits of the mandate. But some Special Education critics have suggested that sharpening goals and objectives would give helpful guidance to those trying to operate within the program's parameters. One possible distinction: providing children with "beneficial access" rather than promising to "maximize their potential," as the system now is often asked to do. Such a distinction has precedent. The Americans with Disabilities Act, while mandating protections for people with disabilities, in some areas recognizes resource limitations and requires "reasonable" rather than unlimited accommodations.

audiology, psychological services, physical and occupational therapy and counseling.

Parents have due-process rights that protect their ability to have a major say in how and what services are provided. They have the option of obtaining an independent evaluation at no cost, and may appeal any decisions they disagree with through administrative and court remedies.

While California law echoes and even slightly expands the obligations of schools under the federal law, there is general agreement that the program's major requirements are in the hands of federal policy makers and are not subject to much modification by the State. The federal law is currently in the reauthorization process in Congress. The state law sunsets on June 30, 1998.

California has about 594,000 Special Education students, a number that has grown by 100,000 in the past five years and that is about 11 percent of the total student population.[65] This compares to a national figure for 1995 of 5.4 million, which has grown from 4.8 million in five years.[66] The State's program is huge compared to other states: Only two other states serve more than 300,000 Special Education students (Texas and New York) and only four more states serve more than 200,000. The State's Special Education program is larger than the total K-12 education program in 21 states.[67]

Despite the large number of students, California is at the low end nationally of percentages of students identified by school districts as entitled to Special Education. While many states identify 12 percent or more of their students as Special Education (with Massachusetts leading the nation at 17 percent), California identified 9.5

Special Education Students, 1995		
Disability	***Number***	***% of Total***
Learning disabled	316,190	55.39%
Speech/language impaired	147,935	25.92%
Mental retardation	34,059	5.97%
Severely emotion. disturbed	18,151	3.18%
Health impaired	13,989	2.45%
Orthopedically impaired	13,544	2.37%
Multiple disabilities	6,549	1.15%
Hard of hearing	5,690	1.00%
Deaf	4,544	0.80%
Autism	4,394	0.77%
Visually impaired	4,341	0.76%
Traumatic brain injury	738	0.13%
Non-categorical	496	0.09%
Deaf-blind	214	0.04%
Total	**570,834**	**100%**

Source: Jack Lucas, SELPA director

Most Special Education students are not severely disabled.

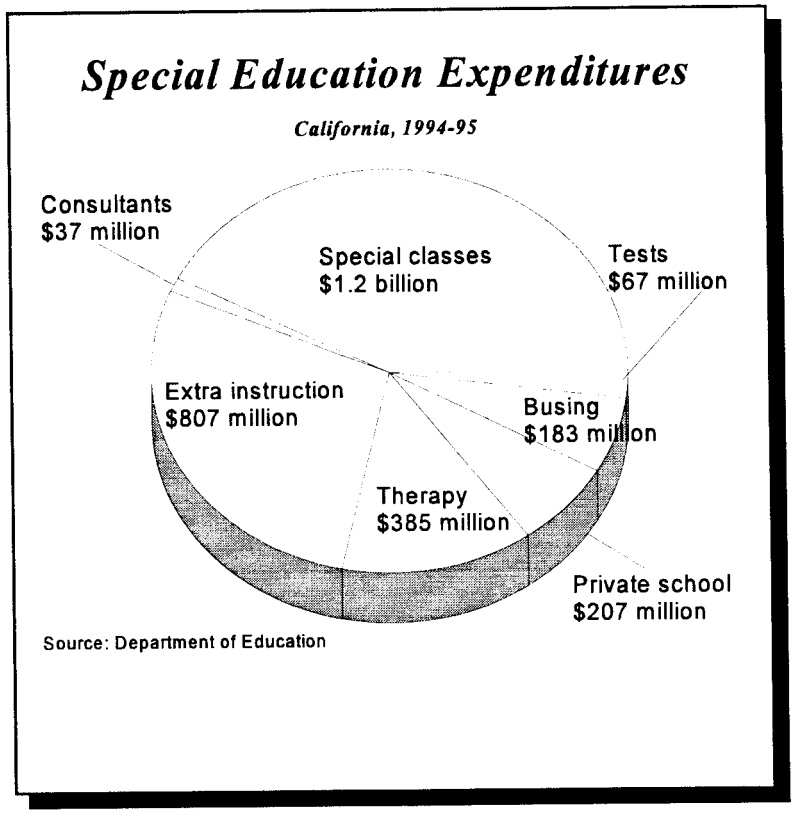
percent as needing special services in 1990, placing its national ranking at 44.[67]

Special Education covers a wide variety of disabilities, including the physical and mental impairments listed in the table on the previous page. As the table indicates, the largest number of students in California fall into two categories: More than half have learning disabilities, such as dyslexia or attention deficit disorder, and another quarter have speech impairments. The fastest growth has come in the learning disabled category, which now includes Attention Deficit Disorder.[68] Some have pointed out that the growth in this diagnosis also coincided with the increasing size of California's classes and the State's disastrous conversion to teaching reading with a whole-language approach, leaving many children "disabled" by an inability to read.[69]

Funding for Special Education is a mix of earmarked allocations from the state and federal governments, as well as money from local school districts' general funds. When the federal law was first enacted in 1975, there was a commitment by Congress to supply 40 percent of the necessary funding. But the federal government has never even come close to that figure, in most years supplying less than 10 percent.

This lack of follow-through by the federal governments does not fall under the prohibition that blocks Congress from mandating services without providing funding. Technically, the program is voluntary -- a state can choose to reject federal Special Education funding rather than comply with the mandates. Also, the unfunded mandate prohibition does not cover programs that prohibit discrimination, such as the Americans with Disabilities Act -- which many believe would provide the same level of protection for students today as the 1975 Special Education act mandates.[70]

The failure of the federal government to provide more funding has left states and school districts to make up the shortfall, even as costs have risen and the population needing services has



The bulk of Special Education expenses provide special classrooms or extra instructional assistance for students.

expanded. The current ratio in California is about 70 percent state, 25 percent local and 5 percent federal.[72]

National data indicate that about 12 percent of total K-12 budgets are allocated to Special Education, and that the cost per student runs roughly 2.3 times the cost of regular education.[73] Those ratios, however, do not hold up in California. This year, California has budgeted about $2.8 billion for Special Education, with local contributions pushing the total past $3 billion -- less than 10 percent of the State's total education spending. The per-student cost of Special Education in California was $5,664 in 1994-95 -- a cost that is only about two-thirds higher than the per-pupil cost of $3,836 for students in regular school programs.[74]

As the chart on the previous page shows, most of the funding in California's Special Education program is devoted to special classes and extra instructional help, with small amounts going for testing and consultants. Reimbursements to private schools cost about $200 million.

California's Special Education funding does not track most of the other types of categorical funding -- it is not given out on an ADA basis, for instance, and coordination comes from Special Education Local Plan Areas (SELPAs) rather than districts. There are 116 SELPAs: 32 single large school districts, 48 multi-district, 33 county-wide and three multi-county.[75] The SELPAs act as traffic directors, giving districts the ability to group together to provide services more efficiently to children with unusual or rare disabling conditions.

Funding for all districts is based on what they spent in 1979-80, the year California put its system into place, with some level of growth and cost-of-living adjustments since then. The funding is keyed to instructional personnel service units and the support services for that unit -- the cost of a teacher, aide and support services to provide education in different types of settings. These settings include special day classes, resource specialist programs where children are assisted on a pull-out basis from the regular classroom, and designated instruction and service. Children can also be served in non-public schools when appropriate or, in the case of deaf, blind or neurologically handicapped children, service can be provided in a state residential institution.

Under the system, districts report the types and hours of services being provided in different settings to the SELPA, which in turn aggregates the information and sends it to the State. The State allocates funding based on the instructional personnel service units required to meet the aggregate numbers and the SELPA directs the distribution of the funds to its member districts.

By design, the system could cover the total cost of providing Special Education services since it is keyed to the personnel that must be hired to perform services. But there is no pretense that the system does so.

Enrollment that counts towards reimbursement is capped at 10 percent of a district's ADA, regardless of the actual number of Special Education students. Cost-of-living adjustments rarely cover inflation. Allowances for growth in enrollment never cover the actual population increase. And for most districts, the reimbursement rate for the instructional personnel service units bears no relation to actual expenses.

The result is a shortfall in funding. In 1993-94, the total actual cost reported by schools for Special Education was $3.2 billion -- an amount that was $814 million more than provided in earmarked state and federal funding for Special Education. The State mandates a local funding match, which accounted for $169 million of this excess. But the rest -- $645 million -- was also squeezed by districts out of general education funding to cover the costs of providing services that, under federal law, are mandated regardless of available resources.[76] This shortfall of Special Education funding is called encroachment -- a word that angers parents, both those who believe their general education children are being shortchanged and those who feel the word stigmatizes their Special Education children as burdens.

But the system has far more wrong with it than shortfalls and semantics. In February 1994, the Legislative Analyst's Office highlighted four problems with the existing system. These were unjustified funding variations, unnecessary complexity, constraints on local innovation and inappropriate fiscal incentives. The Legislature responded by directing the Legislative Analyst, the Department of Finance and the Department of Education to propose a new funding model. Although the eventual product was not embraced by the Legislature in 1996, a modified version is being pushed in 1997. The following sections describe the problems identified by the Legislative Analyst, SELPA directors and others, the reform proposals and the issues raised by those who are not backing the current reform movement.

Problems

There appears to be widespread consensus that the present system of funding Special Education is not good. One expert writes:

> *One thing is very clear about California's current system for funding special education -- nobody likes it. The system is incredibly complicated, is full of rules and rigid requirements, and is both underfunded and inequitably funded.*[77]

The problems are multiple, including:

■ ***Inequity:*** The problems begin with a flawed set of data used in an inappropriate way. This data has driven all expenditures since 1979 despite the universal recognition of the lack of rationale and equity. That year, school districts were asked to report their average costs for Special Education in each defined setting. Districts had never used the form

before and there was no oversight to guarantee universal reporting procedures. Many believe that at worst the forms were filled with errors and at best they were filled out using different assumptions in different districts.

The data was used to establish base-line reimbursements for districts. If a district had several senior Special Education teachers, earning near the top of the district's salary schedule, its average Special Education costs would be high. A district with only novice teachers would have low average costs. Those 1979 staffing patterns were locked into each district's permanent reimbursement base, regardless of future changes. In addition, some districts carefully attributed all incremental and marginal costs to Special Education on the forms, while others may have been less precise, failing to list many costs.

The result is reimbursement rates that have been inequitable -- based on errors and poor logic -- for more than 15 years. As the table at the right indicates districts have different reimbursement rates that vary as much as $50,000 and $60,000. Many districts at the low end, and even those at top rates, do not receive enough to cover the salary and benefits for a single Special Education teacher, let alone aides and support services.[78]

Range of Special Education Rates for Districts

Setting	*Lowest*	*Highest*	*Inequity*
Special Day Class	$31,896	$82,229	$50,333
Resource Specialist Prog.	$26,776	$87,217	$60,441
Designated Instruction and Service	$26,628	$94,266	$67,638
Aide	$8,089	$51,249	$43,160

Source: Jack Lucas, SELPA Director

The combined reimbursement rates for teachers, aides and support services vary greatly -- for no rational purpose.

District-to-district inequity was further ensured by the State's approach to setting the amount of local match that a district must provide from its general funds. Because state aid was not meant to supplant existing local efforts, each district's required match was based on its pre-established programs for Special Education. A district that had intensive services -- one that recognized an obligation to serve Special Education students and did something about it -- was penalized by having a high local match. Districts that had ignored their obligation to meet the needs of difficult-to-serve students got off lightly. As a result, local match amounts range from nothing to more than $300 per ADA.[79]

■ ***Underfunding:*** Irrational reimbursement rates are compounded by limits on funding for enrollment growth. In addition to the 10 percent-of-ADA cap on a district's eligibility for Special Education funding, the allowable growth is keyed to the growth in the regular student population. Between 1989-90 (the base year for growth calculations)

and 1994-95, regular student population increased 11.2 percent -- but Special Education students increased 19.5 percent.[80]

The discrepancy between real Special Education student growth and the barometer established in statute is aggravated by the fact that even permissible growth is not fully funded. In 1996-97, SELPA directors say schools were serving enough Special Education students to require 4,000 additional instructional personnel service units. Under the statutory caps, statewide allowable growth was only 1,800 units. The budget, however, supplied funding for only 794 new units -- 43 percent of so-called allowable growth and less than 20 percent of the units needed based on actual identified students.[81]

The underfunding, even more than the statutory caps, discourages districts from over-identifying students -- a perennial concern of the program's critics. Each student who is classified as Special Education requires services that should be provided, with the typical district covering about 25 percent of the costs out of general funding.

Just as growth has been largely glossed over by the Special Education funding system, inflation is typically ignored. COLAs between 1990-91 and 1995-96 called for 15.75 percent growth in funding, but the program was granted only a 3 percent increase in 1990 and a 2.73 percent increase in 1995.[82]

■ ***Disincentives for least restrictive placements:*** To collect Special Education reimbursements from the State, the districts must offer services in the settings the State recognizes -- special day classes, resource specialists, etc. This has been in direct conflict with the inclusion movement that has grown significantly in the past few years -- those parents who believe their Special Education children thrive best in normal classrooms.

While a district "loses" money on Special Education in general, the district may maximize its revenues by selecting high-reimbursement services for an identified child. Selection may be driven by something other than a professional judgment about the educational needs of the student and the best way of meeting those needs.

This appears to be particularly true about districts that make heavy use of non-public school placements. The State reimburses 70 percent of the cost of these placements, leaving districts to pick up the other 30 percent. While that sounds like an expense that would discourage such placements, districts that face high costs from setting up specialized intensive programs for a few students may find it is cheaper to pay 30 percent of a private school's fee. Such placements may be in the best interest of the child -- but since they remove the child from the neighborhood school setting, they may not be the least-restrictive choice that meets a child's needs.[83]

In addition, since the component districts of a SELPA each have different reimbursement rates, decisions about a child's identification or placement may be altered by the SELPA's desire to maximize allowable instructional units or maximize certain types of reimbursement.

■ ***Parental concerns:*** Although most parents and Special Education advocates who provided input to the Commission were focused on service problems, many were able to connect their complaints to financing issues.

One of the major concerns is the failure of the system to link funding to outcome. Only 3 to 4 percent of students with disabilities ever return to the regular education program. Almost half of all students labeled learning disabled drop out of school. Fewer than 15 percent who do graduate find a full-time job.[84] This is particularly alarming considering that the purpose of Special Education is to give the disabled tools to participate in life as fully as possible. Parents pointed out that individualized education plans may not have clear-cut objectives, there is no mechanism for ensuring that goals are reached and that the money flows to programs regardless of whether they are suitable or effective.

Another concern is related to the theoretically unlimited federal mandate and the very real limits of the chronic underfunding of the system. Within the Special Education community, it is recognized that parents who advocate ceaselessly on behalf of their children -- including the use of due-process hearings and court remedies -- are able to pry services out of a district, often at a disproportionately higher price than the district receives in reimbursement for services to the child. This higher cost comes at the expense of the general education program -- and by underserving other Special Education students. Silent, unsophisticated or intimidated parents may accept a much lower level of service than their child needs or deserves without realizing that they have options. Because there are no clear standards of achievement for Special Education children, parents may have difficulty recognizing when their children are underserved.

Parents also complain vigorously that the SELPA structure dissipates responsibility and accountability. Parents sometimes go from district to SELPA and back to the district without being able to get clear answers. The structure also allows districts -- which in the eyes of federal and state law are the liable party -- to view the student as the SELPA's problem rather than as their own responsibility.

Proposed Reforms

The need for reform is widely recognized and well documented. But the details have proven difficult to reach consensus on. As mentioned above, 1996's reform proposal by the Legislative Analyst, Department of Finance and Department of Education -- the tri-agency report -- did not move forward in the Legislature. A 1997 version has

been modified by SELPA directors and introduced in the Legislature with the support of the State Advisory Commission on Special Education. Other advocates have their own proposals.

Two national experts on Special Education have listed the following criteria as important elements in evaluating funding systems:[85]

- √ ***Understandability*** -- The formulas should be easily understood, procedures should be straightforward and complexity should be avoided.
- √ ***Equity*** -- All districts should receive comparable resources for comparable students.
- √ ***Adequacy*** -- Funding should be sufficient to provide appropriate programs.
- √ ***Predictability*** -- Educators should be able to plan on stable funding across years and a system that produces predictable demands for state funding.
- √ ***Flexibility*** -- Districts should have maximum latitude in use of resources in exchange for outcome accountability.
- √ ***Identification neutrality*** -- The number of students identified should not drive eligibility for funding.
- √ ***Reasonable reporting burden*** -- Data requirements, record keeping and reporting should be kept to a reasonable level.
- √ ***Fiscal accountability*** -- Conventional accounting procedures should be followed, with controls to prohibit excessive costs.
- √ ***Cost-based*** -- Funding should be linked to the costs districts face in providing services.
- √ ***Placement neutrality*** -- Funding should not be based on type of placement or type of disability label.
- √ ***Cost control*** -- Patterns of growth in Special Education costs and identification rates should be stabilized over time.
- √ ***Outcome accountability*** -- State monitoring should be based on student outcomes as judged by statewide standards. Schools showing positive results should be given maximum latitude.
- √ ***Connection to general education funding*** -- Special Education funding should have a clear conceptual link to general education funding. Integration of funding is likely to lead to integrated services.

√ ***Political acceptability*** -- Reform implementation should avoid major short-term loss of funding and should not disrupt existing services.

The tri-agency report was in accord with many of these criteria. Issued as a final report in November 1995, it contained the following reform elements:[86]

- Continuing the regional approach of SELPAs and sending funds directly to SELPAs for distribution to districts. (Some advocates worried that this would give SELPAs new powers without adequate controls).

- Shifting from the existing fee-for-service approach to a population-based allocation, with each SELPA receiving the same amount per ADA of all districts within the SELPA.

- Ensuring the same adjustments to Special Education funding that revenue limits receive -- COLAs and enrollment growth consistent with general education funding provisions.

- Phasing in the new funding scheme over five years in a manner that ensures no district would lose funding.

- Providing districts with flexibility to tailor services to address student needs.

- Continuing due-process protections for parents and provisions that Special Education funding only be spent on Special Education. To further ensure accountability, the State would

New Accountability Procedures

The Department of Education, upon direction by the Legislature, made the following six recommendations for providing accountability under a reformed Special Education funding system:

√ Authorize the Department to audit categorical funds to ensure they are spent on services to Special Education students.

√ Create procedures to ensure that local support for Special Education, beyond federal and state funds, continues.

√ Allow the withholding of funds if a district fails to comply with fiscal accountability requirements.

√ Require local plans to clearly describe services and options to the public.

√ Enhance the role of Community Advisory Committees in assuring that parents are aware of their rights and service opportunities.

√ Establish standards for progress and achievement and then reward schools that demonstrate success by allowing more latitude.

Source: New Accountability Procedures for Special Education Programs: A Preliminary Report to the California Legislature and the Department of Finance, May 1996

modify its oversight role (as outlined in a subsequent report from the Department of Education, which is described in the box at right).

- Rolling the cost of non-public school placements, except when they are extraordinary, into the base allocation for Special Education. (This would give districts that now make such placements because of fiscal incentives a push toward developing their own programs. The California Association of Private Special Education Schools opposed rolling in the non-public school costs, arguing for continuation of the existing 70-30 state-district split on costs.)

- Dealing separately with licensed children institution placements and specialized equipment needs for low-incidence, costly disabilities.

The proposal to shift to a per-ADA system of funding is being examined at the federal level and has been tried in other states as well.[87] It not only equalizes all funding but also disconnects the identification of children and placement options from fiscal issues. One advocate argued to the Little Hoover Commission that it would move the general education and Special Education systems closer to integration, as well. The National Association of State Boards of Education also offered that perspective:

> *The key to reform in the finance of Special Education is to ensure that students receive the services they need, while not mistakenly identifying students for special services or identifying students in ways that have detrimental consequences. Funding formulas should not encourage local districts to over-identify students, nor should they encourage restrictive school placement over a regular school placement. However, current state financing systems for Special Education often drive dual systems of general and Special Education, creating barriers to the establishment of inclusive education systems for all students.*[88]

The per-ADA shift was one of the most controversial elements of the proposal since many believe urban districts attract a disproportionate share of Special Education students. The tri-agency report found, after an extensive literature review and discussions with experts, that research demonstrating any link to poverty or other factors is inconclusive and that the most reliable predictor of Special Education population is a percentage of the total school population. The Legislative Analyst reported this year, however, that new data may be emerging on the national level to modify that finding. Several sources have suggested modifying the per-ADA amount with an adjustment for poverty since poor living conditions may contribute to disabilities covered by Special Education.

The second area of concern over this provision came from advocates who believe districts will have no incentive to provide services without strong accountability mechanisms. Keeping due-process provisions in place only protects those who have been identified as needing Special Education -- not those the system refuses to identify once funding is no longer an incentive.

The current reform effort modifies the per-ADA approach and allows districts to retain different reimbursement rates -- but provides equity increases for those below the state average. The simplicity of a single statewide rate is traded for recognition that districts are already serving differing types and levels of disabilities and therefore should retain different rates, according to its supporters.[89]

Large Districts Weigh In

Several large, single-district SELPAs met in early 1997 and developed their own criteria for what should be incorporated in any reform package. They included:

- √ Support for a census-based system, counting children in private schools as well as public schools and adding an adjustment for poverty.
- √ Treating federal money as a supplement to state funding rather than subtracting it from the amount the state pays.
- √ Ensuring that no district loses money and that all receive growth and inflation adjustments during the time that any reform is phased in.
- √ Bolstering the general education system's response to at-risk students as a way of decreasing pressure on Special Education.
- √ Incorporating clarified guidelines for student identification, neutrality in placement decisions and appropriate accountability systems.
- √ Implementing alternative dispute resolution methods to decrease the cost of due process.
- √ Revising the accreditation criteria and process for non-public schools.

The current reform effort begins with three steps:

- √ Each district calculates a single rate for equalization purposes. All districts below the statewide average receive funding to bring their rates up to the average.
- √ The reimbursement rate for each district is used -- along with federal grants and non-public school funding -- to calculate a SELPA level amount. This is converted to a SELPA-wide per-ADA rate.
- √ All SELPA rates are then calculated to set a statewide average and those below the average are provided an equity boost to bring them up to average.

The combined cost of the two equity adjustments is $213 million, money that the proposal's advocates argue must be new money in the system

rather than funding that would otherwise go for cost-of-living adjustments.

The remaining portions of the reform echo the tri-agency report: growth tied to ADA growth, funds distributed to the SELPA and extraordinary non-public school and licensed children institution settings being paid for separately. The State Advisory Commission on Special Education supports the reform proposal, with the addition of strong accountability and enhanced enforcement mechanisms.[90] These include the SELPAs setting performance standards, carrying out assessments, reporting effectiveness annually and creating processes for modifying and improving programs when results indicate it is necessary.

The reform proposal would reduce complexity and inequity -- but not eliminate it since rates would still differ substantially. It also would break the rigidity of the present system, which ties districts into delivering services in certain patterns and settings. Instead, districts would have the flexibility to design services that are appropriate to the needs of students.

Unfortunately, trust is in short supply in the Special Education system. Advocacy groups and parents told the Commission that they believe "flexibility" can too easily become "no service." Accountability for services and results now is only achieved through due-process hearings and court remedies, according to many who deal with the system. When districts no longer have the constraints of at least supplying certain types of services -- special day classes, resources specialists, etc. -- there is no assurance that students will receive any level of service. Two national experts highlighted the need for new kinds of accountability:

> *In this era of scarce resources, increased demand for services and heightened scrutiny of education, concepts of accountability are more important than ever. As more states and perhaps the federal government relax traditional accountability measures to allow for more flexibility and freedom in the use of Special Education funds, what will replace them? Even advocates who support enhanced flexibility in the use of Special Education funds express concerns about replacing traditional accountability with simple trust.*
>
> *As the same time, traditional accountability mechanisms have been more concerned with the legal use of funds than with whether they are being used well. If accountability systems were devised and implemented that could clearly measure the extent to which the children for whom these dollars are intended are making educational progress, then the linkage between Special Education eligibility, student counts and funding would certainly be less important. The development of such results-based accountability systems may well be one of the most critical*

components in the movement to revise Special Education finance policies.[91]

Summary

The Special Education system has made significant advances in providing service to children who were once routinely excluded from public education and, thus, from much of life. But the system -- as implemented in California -- is fraught with inequities, complexity and rigidity. A student with special needs will be treated differently depending on where he lives, how his parents advocate for him and the established services available. None of these conditions help either parents or educators in the quest to find the best services to meet individual needs.

While reform proposals have been discussed for years, inertia and chronic underfunding have made it very difficult to build the necessary momentum to change the system. But the State's reviving economy and increasing resources offer the opportunity to sweeten reform steps with added funding, thus heightening the prospects for broad support and eventual success.

Recommendations

Recommendation 2: The Governor and the Legislature should redesign the Special Education funding system to achieve simplicity, equity and flexibility and to shift accountability to outcome.

Elements of both the tri-agency recommendation and the current reform proposal go far toward resolving problems with the current Special Education financing system. However, policy makers should be wary of continuing present inequitable patterns simply for the sake of obtaining the political consensus to move forward with reform. At some point, even if on a phased-in schedule, all Special Education children should have the equal opportunity to receive services regardless of the district they live in.

Recommendation 3: The Governor and the Legislature should ensure that primary responsibility for special-needs students rests in their home districts.

Money should not be routed directly to SELPAs if it is going to increase the already-existing tendency for districts to consider Special Education students someone else's problem. Districts should be able to purchase regionalized services from SELPAs, but any realignment of the financing system should not further divorce Special Education students from the general education population and structure. Parents should be assured

of having single-point access at the home district for service, advice and complaint resolution.

Recommendation 4: The Governor and the Legislature should petition the federal government to live up to its original funding commitment -- and if it is unwilling to do so to consider realigning the Special Education mandate with fiscal realities.

Much of the tension and acrimony within the Special Education system comes from the irresolvable conflicts between funding shortfalls and legitimate demands for appropriate services. The existing system is not fair to educators, parents, students or taxpayers. Congress should be strongly urged to increase funding levels.

Any discussion of modifying the mandate to provide services to Special Education students needs to be handled with extreme sensitivity to the fact that -- prior to the enactment of the broad mandate -- schools often turned their backs on this population. They should be given no opportunity to do so again. But clarifying the mandate and bringing it in line with the slightly more narrow but still powerful protections of the Americans with Disabilities Act would give both schools and parents better guidelines for taking action.

Accountability

- *Through the education finance system, California holds schools accountable for inputs and process -- not for results.*

- *Realigning financing with educational goals requires redefining accountability measures and then providing incentives for schools that perform well.*

- *Court rulings, voter initiatives and legislative mandates have steadily pushed the State into controlling ever-increasing portions of the education system.*

- *Local accountability goes hand-in-hand with local authority -- but with the State controlling the purse-strings, districts can easily shift the blame for any shortcomings.*

Redirecting Accountability

Finding 3: Because there is no way to judge schools on academic results, the State focuses on fiscal accountability for process and inputs -- often to the detriment of educational efforts.

When school districts violate sound fiscal policy, California has a mechanism for taking over and bringing the operations back to financial health. But when districts repeatedly fail to produce the outcome that education is all about -- students with a solid base of knowledge and skills -- there is no remedy. The State's system instead focuses on accountability for process and inputs: Did the district provide the correct number of instructional minutes and school days? Were categorical funds spent on the proper services? Did the district comply with teacher-to-student ratios and administrator-to-teacher ratios? Since these are the questions by which they are judged, districts spend substantial time, energy and resources getting the answers right. Unfortunately, no research has indicated that these are the factors that improve student learning.

Lacking statewide standards and assessment tools, the State has embarked on a path to create a system to judge school performance. The Commission for the Establishment of Academic Content and Performance Standards -- created by policy makers in 1995 -- is developing standards for each grade level in reading, writing, math, science, social science and history. Adoption of the standards is expected to be followed by the development of appropriate assessment tests. Once in place, these can be used to rate the performance of schools, identify those that are falling below standard and target

resources -- through either rewards or sanctions or both -- to achieve improvement.

The adoption of an outcome-based assessment system, however, will not spread to the education financing system without active intervention by policy makers. There is no automatic feature of meeting academic standards that would allow districts to cut back on paperwork, relax their vigilance on prescribed inputs or loosen their approach to creative teaching methods. It is quite conceivable, instead, that districts will be asked to be accountable in new meaningful ways while continuing to comply with old accountability measurements long after many researchers have determined that they have little value or connection to education.

This finding examines the literature on accountability measures and the steps other states have taken in shifting their attention to outcome. The focus is on how school finance systems can be aligned with outcome measurements, rather than on what standards should be and how assessments should be designed -- issues that are already under debate elsewhere.

Standards

Setting standards is generally a two-part process. "Content" standards define what students should know in different subject areas at different grade levels. "Performance" standards set criteria for how well students must learn the material described in the content standards.[92] The two work hand-in-hand, as can be seen easily with a physical education example: A content standard might require eighth graders to be able to run a mile. The performance standard might require them to do it within 10 minutes. The content standard without performance criteria would be fairly meaningless, since it would take little physical conditioning to cover a mile in half an hour.[93]

Standards in academic areas are often less clear cut, but still need both parts. For instance, a reading content standard for the sixth grade might require students to be able to summarize a short

Standards at the School Level

While much attention is focused on creating standards for students, others are interested in setting criteria to determine if schools are successful. Writing about how to judge a quality education in minority schools, one researcher picked three criteria:

- √ Ability to attract and retain teachers with high verbal ability and high expectations for student performance.
- √ Exposure of students to a breadth of classes and depth of content to allow students to score at or above norms on nationally recognized tests.
- √ Graduation rates above 74 percent and entering higher education rates of at least 40 percent.

Source: Deborah M. Kazal-Thresher, University of Texas, Austin.

story, identify its theme and describe the writer's techniques for building plot, character and setting. The matching performance standard might require 90 percent of all students to achieve a 90 percent rating on the assessment tool that measures this content standard.

Nearly every state is developing core-academic standards for students as part of a move towards providing education that is relevant to the needs of today's workplace. Researchers note that while the commitment to developing standards is strong, most states have yet to develop meaningful assessment tools -- nor have they linked accountability to academic standards.[93]

This does not mean that assessment is not taking place -- merely that the how and what of meaningful assessment are still being argued. Forty-five states have statewide assessment tests. Forty-two require conventional, multiple choice tests. In 1994, 24 states offered performance-based tests -- non-multiple-choice tests that allow assessment of higher-level thinking skills. Three of those programs, including the California Learning Assessment System test, were later canceled after disagreements about their reliability and appropriateness.[94] Twenty-one states -- California is not included -- require high school students to pass a test with a minimum score to graduate.[95]

While substantial energy is being directed at determining standards that everyone can agree on and that reflect skills needed in the post-school world, some are looking ahead to how to connect the standards to the way schools operate. Economists who look to business-world models believe schools need to be placed in systems that will direct their energies toward three principles:[96]

- ***Efficient use of resources*** -- Available resources should be used to maximize student performance. The costs and benefits of various approaches to education should be analyzed, and resources should be invested in things that make a difference in children's learning outcomes.

- ***Performance incentives*** -- Systems should reward results. Teachers and other school personnel have a great ability to affect school performance, but nothing in existing systems encourages their creativity. Once goals and measurement systems are in place, those who take action to reach goals should benefit. Such a system focuses efforts on improving education by establishing incentives for educators rather than on processing paperwork or moving children through the grades.

- ***Continuous learning and adaptation*** -- Because today's education system typically involves top-down, rigid structures, there is little opportunity for educators to take what they have learned and alter programs to improve them. The education system needs to have the flexibility to allow innovation, assessment of results and then feedback-prompted changes. This cycle of continuous

improvement is well-recognized in the business world as a key to long-term success.

Another book echoes the business-world theme, focusing on educators as "front-line workers" who should have a clear understanding of goals, jobs that provide them with incentives and opportunities to contribute to solutions, and training needed to pursue solutions effectively. Progress can then be measured on a regular basis and lessons learned from experience can be incorporated in future approaches. The authors argue that when systems focus on these elements, the people within the system can use expertise and resources to move toward goals. When systems are focused elsewhere, such as on inputs, any new resources go toward simply providing more of the same services, whether those services are effective or not.[98]

Different Treatment Based on Results

As attention moves to performance, states are beginning to use differential treatment of districts and schools to influence how educators act. One recent research paper identified four commonly used differential treatments:

- √ Performance-based accreditation, with oversight varied according to success in meeting criteria.
- √ Rewards and sanctions relating to various levels of performance.
- √ Targeted assistance to low-performing districts.
- √ Regulatory flexibility to support innovation in successful schools and districts.

Source: Susan Fuhrman and Richard Elmore, "Takeover and Deregulation: Working Models of New State and Local Regulatory Relationships"

Other researchers place a strong emphasis on the linkage between standards, financing structures and accountability systems. In an article that examines how more resources could be best used in schools, the authors write that policy makers should focus on:[99]

- √ Specifying clear goals and high standards.
- √ Supporting and facilitating local educational decision making designed to meet the individual needs of a school's specific student population.
- √ Developing a funding system that ensures that all schools have the resources to provide their students with the educational opportunities necessary for success.
- √ Creating an accountability system built around ongoing evaluation and improvement.

Two other researchers argue that because there have been no clear goals, schools have failed to focus on results. This has caused

educators to concentrate more on providing services than on reaching educational goals. They write:

> *This orientation produces a focus on finding new areas where money must be spent -- such as student nutrition, parent involvement, professional development or child care -- rather than on direct education services. These areas may be very worthy, but they ignore the key question of how to allocate scarce current and new resources to boost student achievement.*[100]

These researchers conclude that the financing strategies of the past did little to meet the demands of equity and are even less structured to meet the future demands for results-oriented outcomes. Finance systems now focused on inputs need to be reconstructed to reinforce education agendas that center on outcomes at the school site. They advocate setting statewide fiscal equity; earmarking funding for development of teacher and organizational capacity to teach a high-standards curriculum and for student assessment; and directing most funds to the school level for maximum flexibility to meet clear goals.[101]

Some states have already embarked on the types of changes described above, refocusing accountability through incentives and outcome measurements. For most, the results have been mixed and the process of refinement is still going on.

Other States

When education experts talk about outcome-based systems, Kentucky takes center stage. When the Kentucky Supreme Court threw out the entire education system as unconstitutionally inadequate (as described in the Background section of this report), the Kentucky Legislature made the most of the opportunity to start from scratch.

Recognized as one of the most sweeping reforms of education, the system is built around an assessment tool called the Kentucky Instructional Results Information System (KIRIS). Rand Corporation, which is providing an ongoing evaluation of the reform, describes the system:

> *KIRIS exemplifies several key themes of current assessment-based reform. It relies largely on "performance assessment" -- that is, assessment formats other than multiple choice. It measures student achievement against standards for expected performance, and those standards are intentionally set high relative to the current distribution of performance. It is a "high-stakes" assessment, although the direct consequences are for educators and schools rather than for students: financial rewards for schools whose KIRIS scores improve sufficiently, and (in the near future) sanctions for schools that fail to improve.*[102]

The Kentucky system tests learning in reading, writing, math, science, social studies, arts and humanities, practical living and vocational studies, as well as assessing attendance, retention at grade level, dropout rates and post-secondary transitions to work or higher education. A high proficiency standard was set for all students and each school has been given twenty years to progress to proficiency, at a rate of at least one-tenth toward the goal each two years. Schools that improve at a faster rate receive financial rewards. Schools progressing below standard must develop improvement plans, and schools at the lowest level are judged in crisis and receive state leadership and improvement funds.[102]

The implementation of the new Kentucky system, which includes not only multiple-choice testing but also essay questions, group performance and portfolios, is not problem-free. Rand's early report on attitudes of teachers and principals indicates that some parts of the assessment -- the group activities -- appear to have limited value. Others -- the portfolios -- are subject to variations in assessment.

In addition, Rand reports that nearly half the teachers they interviewed believe the curriculum frameworks are not specific enough to guide instructional activities in a way that is aligned with assessment. And many believe that schools are finding ways to inflate test score improvements without actually improving education.[103]

Mississippi chose to focus its accountability system on districts rather than schools. Each district is given a ranking of one to five each year, with levels one and two considered inadequate. The rankings are based on test scores and process requirements. For a district to reach an acceptable ranking of three, students must have 70 percent correct answers on open-ended tests and must not fall below the thirty-second percentile for standardized, norm-referenced tests. In addition, districts must comply 100 percent with process regulations. Districts falling below the criteria receive intensive assistance from the state; districts at levels four and five win freedom from various regulations.

At least one powerful incentive for improvement in Mississippi was that the statewide association of athletics would not allow schools to compete if they lost accreditation. But critics of the state's system say that level three, where most of the districts sit each year, is a minimal standard that does little to raise academic achievement.[104]

Like Kentucky, South Carolina is trying financial incentives. The state's School Incentive Award Program provides about $4 million to about 250 schools that make the largest achievement gains compared to similar schools. The program has been so successful in motivating improved performance that legislators there are considering releasing multiple-year winners from state regulatory requirements as a further reward.[105] Indiana has a similar program -- but there the incentive affect may be fairly minimal since almost all schools meet high enough standards to

achieve awards. The state distributed $3.2 million in 1993-94 to 1,032 of the state's 1,077 schools.[107]

South Carolina couples its incentive system with a sanction for low-performing districts. Those with poor test results, low attendance and/or high drop-out rates can be declared "impaired districts" that must follow state recommendations for improvement. Few districts fall into this category.[108]

Programs like South Carolina that involve forced state-level intervention for poor academic results are referred to as "academic bankruptcy" provisions. The Education Commission of the States lists 20 states that have academic bankruptcy laws, with varying degrees of sanctions for failing districts. Most states provide for multiple warnings and increased financial aid for districts before any state takeover occurs. Many of the states that have academic bankruptcy provisions for low performance also have financial rewards for high performance.[109]

Illinois places poor-performing schools on an Academic Watch List. After four years without improvement, schools may lose funding or the state may appoint an independent authority to operate the district. The state may redirect the assignment of students to other schools -- or it may "non-recognize" a school or district. A non-recognized district automatically dissolves and is realigned into another district. Absorbing a failing district into a more successful one is also a provision of the Arkansas, Texas, Oklahoma and Iowa academic bankruptcy programs.

The academic bankruptcy concept has been joined by what is referred to as reconstitution -- the replacement of superintendents, principals and teachers. In Missouri certificated staff can be placed under probationary contracts and in New Jersey both school board members and top administrators can be replaced when these states' academic bankruptcy laws are applied.[110] Under court desegregation agreements, both San Francisco and Cleveland have adopted policies of reconstituting the staff of schools that remain poorly performing after three years of

Placing Jobs on the Line

Teacher tenure is a long-standing element of California's education system -- but at least two experts who provided input to the Little Hoover Commission believe teachers' jobs should be on the line when schools fail to improve.

Education consultant John Mockler said he would design a system that included placing a probationary status on teacher and administrator credentials when schools perform poorly.

Academic expert Lawrence Picus said site staff should be held accountable for results. He wrote:

> *Poorly performing schools would be visited by crisis intervention teams. The state might consider some kind of loan funds for staff development, training and other things needed to turn the district around. Schools that did not turn around in an agreed-upon schedule would not receive funding, and the adults working at the school could actually lose their jobs.*

oversight, and Texas has used the method in at least one school to turn results around. Reconstitution is a controversial sanction, however. Critics say that rarely are teachers or principals the whole cause of a school's problems. But many others believe the fresh start gives schools a chance to rise above whatever their problems are.[111]

More than 80 percent of the states say they are developing, piloting or implementing new approaches to accountability, according to researchers. But few states have actually moved ahead with wholesale reforms -- and those that have implemented change are still in a shake-down, revision period that keeps them from being a definitive role model for other states. Nonetheless, there are identifiable steps and considerations that can be taken into account when planning reform.

Path to Reform

While many experts are clear on the need to change accountability measures, advice on how to do so is usually general rather than specific. But to shift accountability successfully appears to involve two steps: redefining what schools should be held accountable for and then providing incentives and rewards for schools that perform well.

The first step, redefining accountability measures, requires clear goals and assessments to measure those goals. This is not an easy process. Assessments that measure items not connected with desirable outcomes can skew the decisions that educators make. This conclusion was supported by a Rand study based on interviews with school principals participating in a reform effort known as New American Schools at 140 schools across the nation. The study examined how school accountability systems aid or impede innovative practices. In general, the principals reported that standardized multiple-choice tests caused teachers to focus on test-taking skills and test drills rather than the knowledge, skills and thinking behaviors that education reform efforts are promoting. On the other hand, performance-based tests appear to help

Accountability: A Constitutional Issue?

Noting the lack of any process for state intervention when academic results are poor, the California Constitution Revision Commission found that the issue is of such importance that the Constitution is the proper place to begin. They advocated a constitutional amendment that requires an accountability system for education content, pupil performance, and financial and management responsibilities. The Commission wrote:

> *A constitutionally required system developed in statute will maintain the state's interest in K-12 education, while permitting periodic statutory changes to allow for new conditions. Of equal importance, such a system would provide a clear statement to the public regarding the degree to which pupils are learning and the efficiency and effectiveness of local districts.*

Source: Recommendations of the California Constitution Revision Commission to the Governor and the Legislature

faculty focus on performance standards and student outcomes.[112]

The principals also said that many existing school accountability systems require reporting on things like student attendance, teacher-student contact time, credit hours in each subject and teacher attendance rates. The desire to show "good" statistics in these kinds of categories may get in the way of some types of reforms, they said. For instance, teacher attendance at school may become a goal that impedes teacher training. Credit hours per subject is not reflective of multi-disciplinary teaching methods. And targets for the number of hours teachers and students spend together may discourage teacher preparation and coordination time. The principals urged that ill-fitting accountability requirements be replaced with indicators more in line with reform efforts.[113]

The second step, designing incentives, can be tricky. Incentives have to be specifically linked to the desired outcome or the results may go awry. One book provides the example of a Soviet nail factory that wanted to receive its reward for reaching its production quota of 10 metric tons of nails without having to work hard. It did so, producing 10 nails, each weighing one metric ton.[114]

Incentives can come at many different levels. Personal incentives include salary adjustments or bonuses. School-site incentives may include one-time awards that may be spent without restriction, increased autonomy from oversight and broad flexibility in designing programs. Districts may be given incentives similar to those for schools. Incentives may also be crafted to respond to different types of performances. Some may be straight awards for reaching a set goal; others may be granted for achieving some level of improvement over prior performance.

Moving forward with the two-step process described above requires political consensus that is often difficult to achieve. Experts on education accountability explain:

> *Decisions about accountability are intensely political. They carry within them policy makers' understandings of what state responsibility for education means: what schools must deliver and what the state must guarantee they deliver. Decisions about those indicators, and the consequences related to their achievement, are profoundly important to local educators, to key stakeholders and their associations, and to policy makers. One would expect the existing array of political interests to have difficulty adjusting to a new distribution of expectations, power and authority.*[115]

These experts identify five main challenges for states in revamping their accountability systems:

- ***Making systems understandable*** -- Teachers, students and others must understand what they have to do to meet standards. The

system has to be direct enough for people to comply and straightforward enough to allow revision, when necessary. In addition, poorly understood systems are unlikely to generate sustained support, from either educators, politicians or the public.

- ***Resolving issues of fairness*** -- Should schools be penalized or rewarded for performance when they are not in control of all factors that contribute to student success? If socio-economic backgrounds are taken into account, does that represent an unacceptable lowering of standards and expectations that is discriminatory? States need to answer these kinds of questions within the context of whether their accountability systems are designed to inspire better performance or to force the allocation of more resources to poor performing schools -- or both.

- ***Focusing incentives for improvement*** -- Creating the proper incentives is a complex task. They can have unintended consequences. They lose their power if they are either too difficult to achieve or too easy to win. States must decide whether incentives will be aimed only at poor performers who improve or also at high achievers who sustain their success.

- ***Developing state capacity*** -- There is a substantial investment required in creating and maintaining assessment systems so they are accurate and meaningful. Goals and capacities must be aligned for accountability systems to work.

- ***Creating a stable political environment for reform*** -- Accountability that is results-based is a long-term project. Success depends on sustained political support for reforms, as they take hold, are measured and then revised.

Despite the difficulties highlighted, however, researchers found positive effects in the two states they studied, Kentucky and Mississippi. They wrote:

> *In both states, the attention to accountability has resulted in desperately needed additional state support for education. The attention to accountability has resulted in a new public dialogue around schools and student performances, in part because of close scrutiny by the press in its new role of messenger of results. Public attention on high-performing and low-performing schools and districts is highlighting model practices and is ensuring that poor practices begin to change.*[116]

In short, while not perfect, the move to new accountability systems appears to be bringing positive results.

Summary

Education accountability is focused on inputs and processes not connected to the desired outcome -- graduates with solid skills and knowledge. Redirecting accountability can help schools and educators focus their attention on the end result. Such a shift cannot occur as long as the State has a system that generously rewards process compliance with dollars and pays scant attention financially to either academic success or failure.

But changing accountability systems is not easy. Goals need to be clearly described, assessments need to accurately measure results, and incentives and sanctions need to be linked in a meaningful fashion to actions that increase student learning.

Accountability that depends on inputs, like teacher-student ratios, and easily measured outputs, like attendance, is much easier to track and enforce -- and therefore is difficult for policy makers to give up. But these mechanisms divert resources and attention away from educational tasks. The challenge for the State is to shift from one system to another in a way that maximizes both citizen confidence in school performance and flexibility at the local level to meet educational needs.

Recommendations

Recommendation 5: Once academic performance standards and assessment systems are in place, the Governor and the Legislature should ensure that the State's education accountability system shifts to outcomes.

Educators should not have to struggle to meet the demands of two accountability systems: the existing one that focuses on processes that are largely unrelated to academic achievement and the new one that will surely be the natural consequence of implementing statewide standards and tests. Instead, the State should take steps to make sure that fiscal accountability is focused on meaningful activities. These steps could include creating rewards -- such as incentive bonuses -- and sanctions -- including an academic bankruptcy process -- to encourage better focus on academic performance.

Local Accountability

Finding 4: Despite 1,000 locally elected district boards and a professed preference for local control, California's schools are run by the State -- directly through mandates and indirectly through fiscal constraints.

The history of schools in California is one of local control, beginning in the early days before statehood when settlers pooled resources to hire a teacher for the one-room schoolhouse they had built as a community project. But court rulings, voter initiatives and legislative mandates have steadily pushed the State into controlling ever increasing portions of the education system. While dominance by the State in education fiscal matters has been seen as the best route to equity, many believe the shift from local to state control has eroded financial resources for schools, public support for the education system and meaningful accountability.

Unlike the other issues in its study of school finances -- each of which prompted a variety of often-conflicting perspectives -- the Little Hoover Commission found universal support on its advisory committee for local control of schools. For most, this position translated into a desire to provide a new local-option funding mechanism for communities. At the same time, proponents expressed concern about balancing local control with the overriding need to ensure equity of opportunity for all students, regardless of where they live.

This finding summarizes the viewpoints shared with the Commission and found in education literature, as well as outlining proposals for reinvigorating local control of schools.

Who's in Charge?

Prior to the *Serrano* decisions and Proposition 13, school districts adopted a budget each year and set a local property tax rate that would raise enough revenue to support that budget. The local community could see where the decisions were made and how those decisions affected the community. Those who wanted a better education system might lobby the school board for improvements; those who wanted to keep a lid on taxes might argue for fiscal restraint.

In the cause of statewide equity, the *Serrano* court decisions stimulated a slow movement toward centralized, state-dominated school funding. The movement was dramatically accelerated when Proposition 13 effectively turned local property taxes into a statewide system. Now rates were universal throughout the State -- 1 percent with a 2 percent annual cap on valuation increases. The State became the director of who would receive what share of the property tax revenues and it became the banker for all of the educational needs beyond those that could be purchased for the new limited property tax revenues.

'He Who Hath the Gold Makes the Rules'

A retired superintendent who spent 41 years as an educator has watched with dismay as most elements of control have shifted to the State. He told the Commission:

> *The idea of local control -- the ability of the community to have a direct voice in the administration of its local public institutions -- has long been a philosophical concept that has been respected, valued and supported by those of us in education. Few would question the concept that individual school boards can respond to and reflect the values and aspirations of the community for the education of its children....*
>
> *The legacy of [Serrano and Proposition 13] has been to transfer all fiscal authority to the State. The rule of "he who hath the gold makes the rules" now applies, with power centered in Sacramento. For all practical purposes, the State has control of the school fiscal system in California. Local tax rates do not determine local school district funding, and local school boards do not control local school district revenue sources.*
>
> *Furthermore, the State has not limited its control to school finance. Its authority has extended to the instructional program, as well as to the management and operational functions of the public school system. Consider, for example, that the State has established maximum class sizes, limited the number of administrators who can be employed by districts, prescribed the minimum percentage of school district budgets to be allocated to teacher salaries, authorized statewide tests at specified grade levels and, as the latest encroachment, moved toward a statewide curriculum...*

Source: Charles Terrell Jr., Edu-Vision Educational Consulting

Today, as described in Finding 1, the State's education system is largely financed through state resources and directives. Although local districts complain that their options are now severely limited by their inability to raise revenues independently, they still control many aspects of schooling. They have substantial control over curriculum, classroom techniques, types of personnel hired and other day-to-day management issues. But once funding is exhausted, they are no longer free to make decisions or take action in response to community concerns unless they can muster the two-thirds vote necessary to approve a parcel tax (a flat tax not pegged to the property value) or a county-wide local option sales tax.[117]

Between *Serrano* and Proposition 13, the taxing and spending decisions for schools have been separated. This means that taxpayers have little incentive to participate in local school board matters since their rates are not affected by school board decisions. And local school board officials have little reason to feel accountable to local taxpayers since funding comes from the State.[118] Instead, they may blame any problems with performance or services on the State's failure to provide adequate funding.

Intuitively, one might guess that making state government the major source of education funding would enhance the prospects for increased resources since a state has far more revenue-raising ability than a school district. But states also have far larger demands to meet, and the experience documented by researchers has been slower growth in education funding once primary responsibility shifts to the state. The reasons are multiple: Urban legislators who fight to keep needed social services flowing to their areas may have to trade diminished public school funding to protect their other priorities. Decisions about education funding are made by a much smaller group of people and thus are more easily influenced when the major decisions are made at the state level. And greater reliance on state funding places schools at greater risk when a state's economy sours.[119]

Some experts have suggested that in an era of equity and broad-based standards, local control is an anachronism that should be allowed to fade away. The quality of education should not be allowed to vary either because of the accident of location in a poor district (as addressed by *Serrano*) or the uncontrollable element of taxpayer willingness to vote for a higher level of taxation (even when the financial reward is controlled for equity by state grants to poorer districts).[120]

But others argue that states have too much on their minds to give education adequate support and lack the intimate knowledge of local conditions and needs necessary to make good decisions. One academic expert wrote:

> *Centralization of educational finance is no sign of success for education. California is a perfect example. With the Serrano decision and Proposition 13 together, California has a nearly*

> *totally centralized system of finance. Has that done well for education in California? Are California schools thriving because they now have a high level of state finance? The answer is obviously no. They've gone from an exemplary position to average or below. In my judgment, centralizing financing at the state level is no guarantee of equal educational opportunity, but even more it is not a guarantee of adequate resources.*[121]

No one is more aware of the decline in California's educational fiscal fortunes than advocates for school finance reform. Many have pushed for measures to return to greater local control of school finances.

Support for Change

As part of a series of recommendations called *Making Government Make Sense*, the Legislative Analyst's Office has urged policy makers to add a local funding option to the school finance structure. Such an option would be in line with three principles established by the Legislative Analyst: aligning funding responsibility with spending control, providing local control over local revenue levels and ensuring that local-option revenues are wealth-neutral. Under the Legislative Analyst's plan, districts could win added property tax revenue with majority voter approval. The additional funding would be limited by a statewide cap and the State would guarantee, through matching grants, that districts would receive equal revenue for equal tax rates, regardless of the assessed value of property varying between districts.

A similar plan was supported by the Little Hoover Commission's Education Finance Advisory Committee. Advisory committee members emphasized that local control is important because California is a diverse state with many different types of needs. Community involvement in and support for schools is important to make sure that diverse needs are met and that local concerns are addressed. While advisory committee members conceded that schools retain considerable control over many issues, their decisions are constrained by:

- √ State mandates that are only partially funded.
- √ State program directives from policy makers that limit flexibility.
- √ The difficulty of and limited number of options for raising revenues independently from the State.

The advisory committee said that the first priority should be high enough base funding for all schools so that adequate educational opportunities can be provided to all students. But the group also advocated the creation of a local-option revenue source -- such as an increase in the local property tax rate -- that could be approved by a majority vote, with a cap and an equalizing mechanism to forestall equity problems. That means that the State would provide extra funds to communities who

voted to tax themselves but who have too low property values to raise the revenues available to wealthier districts who might vote to impose the same tax rates.

The support for a local revenue option was echoed in testimony to the Commission during its public hearing. One advocate said that such an option would bring real decision-making closer to the public:

> *With spending decisions determined locally and revenues determined at the state level, local taxpayers are understandably at a loss as to who to blame when available resources fall short of desired expenditure levels. With a funding system in which marginal revenues are raised locally, there would be no question as to where the responsibility rested.*[122]

Providing a local revenue option would also address other negative consequences of the state-driven funding system, he told the Commission. The State would no longer find itself having to bail out districts that have made bad fiscal decisions, as the courts have ruled it must do regardless of the irresponsibility of a district. The ability of large unions, such as the California Teachers Association, to influence policy at the state level would be diluted if more decisions were made and funded locally. And the statewide consensus and large budgetary commitment that now must exist before reform can be implemented would no longer be a stumbling block if districts had the resources to make changes locally.

Putting Spending Choices to a Vote

While the issue of local control is often cast as one that moves decisions closer to the people, exactly who power would pass to is much less clear. Districts that advocate for increased authority are, after all, simply another level of government. One district official told the Commission that public pressure to spend resources in certain ways might not best meet the needs of children and that such decisions should be left to educators. "Local control" for him did not mean passing power to the public.

But one advocate has suggested a system that would ensure voters exercise control. Under his system, base funding from the prior year would be frozen for the same uses. Voters would then determine at the polls each year how to use any increased funding.

For example, voters could tell the district to use $10 per student to increase technology education. Teacher salary increases, more instructional materials or coverage of deferred maintenance are all choices voters could make in divvying up the increased funding.

> *Although this structure could strait-jacket school districts, I believe it gives the community the ability to make changes in the school district's direction....This concept of funding would enhance local commitment and local ability to influence and control and participate in public education as a community.*

Source: David Walrath, Murdoch, Walrath & Holmes

Other witnesses at the Commission's public hearing decried a pending initiative that would further constrain decisions by local school districts. The initiative would require 95 percent of all education funding to be spent at school sites,

leaving only 5 percent of funding for district offices and activities. While many education reform movements advocate increasing decision-making ability and budgetary authority at school sites, no research has anointed the 95-5 percent split as the most efficient and effective means of allocating resources. Such an arbitrary split continues the pattern of holding educators accountable for process and inputs rather than academic results. And far worse, it presents the likelihood that school spending will become less efficient as districts artificially move chores to the school level to comply.

Other organizations have pressed for greater local control. Policy Analysis for California Education includes local-option revenues in its package of needed school reforms.[123] And the California Constitution Revision Commission recommended two amendments to the Constitution to re-empower school districts:

- ***Increase local control*** -- The Commission acknowledged that the State has ultimate responsibility for education, but believes that local districts should be given as much authority as possible. The Commission recommended that school districts be given the constitutional power to make decisions that do not conflict with state law. The Commission said that such authority might decrease the State's tendency to micro-manage school districts.

- ***Supplementary local taxes*** -- The Commission recommended two local tax options: An increase in the property tax with approval of two-thirds of the voters in any unified district (a provision that would encourage district unification) or a countywide sales tax increase. These extra funds would be constitutionally protected as supplementary funding, with the State barred from reducing its education contribution.

The Commission reasoned that providing local taxing options would allow communities to "be better connected" with their schools.[124]

Models exist for blending the narrow focus of local control with the broader interest of the State to set standards. In transportation, for instance, the State for years has embraced a regional approach to highway funding. Regional priorities for specific projects are set -- and then are followed by the State in allocating funds. State project priorities only take precedence when there is an issue of safety, system continuity or maintenance of existing roads.

Similarly, the corporate world has strategies for setting overall company-wide goals and then allowing distinct divisions to establish their own priorities within those goals. One such strategy is the "nested objectives" system. Goals are set at the top; individual units plan their own activities and set their own objectives that they believe will allow them to assist the overall company in reaching the broad goals.

To work properly and ensure the benefits of local control, both the state transportation example and the corporate strategy model require that top-down mandates be broad and few. The integrity of such systems can only be maintained if those in charge resist the urge to micro-manage and second-guess -- especially in cases where performance is meeting standards. In the absence of performance standards, California's policy makers have been understandably reluctant to take a hands-off approach to education, especially when besieged by constituent complaints about schools. But once such standards are in place, local control can only be reasserted if policy makers focus on setting broad parameters.

Overall, there is substantial enthusiasm for enhancing the ability of school districts to control their policies, procedures and finances. And this is true despite the widely supported move toward statewide standards and the acknowledged need to provide equity of educational opportunity throughout the state.

Recommendations

Recommendation 6: The Governor and the Legislature should create a local funding mechanism that provides districts with equal opportunities to raise revenues.

Communities should be able to demand responsiveness and accountability from their local school boards. They cannot as along as the boards can easily and legitimately point to the State as the source of funding shortfalls and specific mandates. Districts that are able to make a convincing case to their local voters should be allowed to raise revenues more easily to enhance their educational programs. If necessary, to ensure the equity provisions of *Serrano* are maintained, revenues should be limited and balanced by state grants to low-wealth districts, as suggested by the Legislative Analyst and others.

Recommendation 7: The Governor and the Legislature should empower school districts to operate independently as long as outcome standards are met.

Multiple top-down constraints on school districts have done little that can be demonstrated to improve educational performance. While ratios of teachers to students and teachers to administrators may be desirable standards, they should be implemented locally at the behest of voters rather than imposed by state mandates.

The pending initiative that would dictate a 95-5 percent split of funding between schools and districts is an example of reform that focuses on inputs rather than outcomes and replaces local discretion with state control. State officials should accelerate the move to an outcome-based,

academically focused accountability system to restore confidence in the education system -- which should discourage similar initiatives.

Once performance standards are in place, state officials should adopt a model -- such as used in transportation funding -- that requires the State to set goals and allows local districts to use flexibility to meet the goals.

Adequacy

- *Academics argue vigorously about whether "money matters" -- but the more important question is how can money be spent effectively.*

- *California is in line with national figures that show about 60 percent of each dollar is spent directly in the classroom, about 9 percent on administration, and the rest going to transportation, maintenance and non-classroom services.*

- *Because there are no agreed-upon standards for an adequate education, California starts with a given pot of money and then determines what kind of education services to provide with those resources. The question of what is adequate is never directly addressed.*

Adequate Funding

Finding 5: The allocation of education funding is driven by resource availability and political considerations rather than a determination of what is required to provide an adequate education.

When the State wants to build a highway, it plans a design, accepts bids from contractors and then moves ahead with construction once enough funding is available. The cost depends on the product -- the length, width and type of road, the conditions that must be overcome to build it, the wages of the workers, etc.

But when it comes to education, the process is reversed. The State starts with an allocation and then tries to determine how much and what kind of education that will buy. Unfortunately, the product is ill-defined, methods can vary substantially and quality is uncertain. It should not be surprising, therefore, that there is never a sure answer to "how much is enough?"

The role of money in education is a much-studied and often-debated topic in academic circles, in legislative arenas and in taxpayers' forums. It often goes hand-in-hand with discussions of equity -- the concept that children should have equal access to educational services. These intertwined issues are explored in this finding, which summarizes academic literature and highlights proposed standards for adequate funding and equity.

Does Money Matter?

As noted in the Background, debate has raged for some time in the academic world about whether money makes a difference in the quality of education a student receives. Intuitively, one is sure that poor educational outcomes occur in school districts with bare-bones budgets and slim options.

But such is not always the case. The Los Angeles Times recently highlighted a Sausalito school district that ranks tenth out of 1,000 districts in per-pupil funding, spending almost three times the state average. Despite small class sizes and many specialty teachers, the district's students barely reach the 40th percentile in reading and language skills on standardized tests.[125] Money -- and lots of it -- has not made a dent in the problem.

Advocates for increasing education spending see the Sausilito case as an anomaly. By and large, they maintain, many of the education system's shortcomings could be solved by bigger budgets. The critics of expanding state education spending argue that Sausilito is just an unusually clear case that supports their contention: Pouring more money into a broken system will not fix anything -- it will simply buy more of the same poor results.

So the question is: Once a system is operational, will adding resources improve student outcomes?

Beginning in the mid-1960s, researchers began publishing studies estimating the relationship between school spending and student achievement, while controlling for factors like home environment. The early work showed that resources have a very small impact on learning.[126] By the mid-1980s, economist Eric Hanushek found 187 studies to review and synthesize. His conclusion, which received widespread publicity: Inputs in schooling -- teacher-student ratios, teacher experience and training and expenditures on staff and facilities -- have almost no consistent impact on student achievement on standardized tests.[127]

Hanushek's work was systematically rejected in 1994 and 1995 by a team of researchers who questioned both his methods and his conclusions. They concluded that their synthesis of the same studies Hanushek reviewed showed resources do have an impact on achievement -- and that the effect became more pronounced when newer studies were added. Global resources -- per pupil expenditures -- showed positive, strong and consistent relations with achievement. Other important factors included smaller classes and smaller schools. But the most important variable was teacher ability.[128]

The two sides trade barbed comments in published literature today, Hanushek maintaining his original conclusion and bolstering it with

further studies and the team of researchers displaying some frustration that his results continue to have credibility in many circles. But both sides have moved on to the more pertinent question of how money can be used effectively to make a difference. Some researchers have explored the question of how schools use extra money when they receive it. And some researchers are even trying to pin down exactly how much money is required to produce good academic results. A sampling of their work shows:

- In a study of Alabama schools, teacher test scores, teacher education and class size were shown to be strongly related to better academic outcomes. Although the correct threshold for class size was not determined, the researchers theorized that the range was no higher than 23 to 25 children per teacher. In the low-spending Alabama schools -- where small added investments could be expected to make a dramatic difference -- the researchers found that a 10 percent increase in spending raised test results from the 10th percentile to the median.[129]

- A 1991 study in Texas indicated that hiring teachers with strong literacy skills, lowering student-teacher ratio to 18-to-1, retaining experienced teachers and attracting teachers with advanced training all made a difference in test scores.[130]

- A New York study found that smaller class sizes, more experienced teachers and higher levels of formal education for teachers all had an impact on achievement rates. Smaller class size was also found to be important in an ongoing assessment in Tennessee.[131]

- Different sets of researchers close in on a $10,000 figure for the amount required to meet the needs of disadvantaged students. One estimates that extra services to accelerate achievement for at-risk students add about $5,000 to a $5,000 average spending level. Others, examining actual expenditures in New York districts, found that extra services needed cost about $3,500 added to a base expenditure of $6,000.[132]

- Another research paper argues that current knowledge does not allow anyone to determine the minimum level of financial support that is needed for an adequate education -- nor the extra amount needed to help disadvantaged students. It is impossible to determine these amounts because schools are not set up in a manner to maximize learning and spending choices do not increase achievement rates.[133]

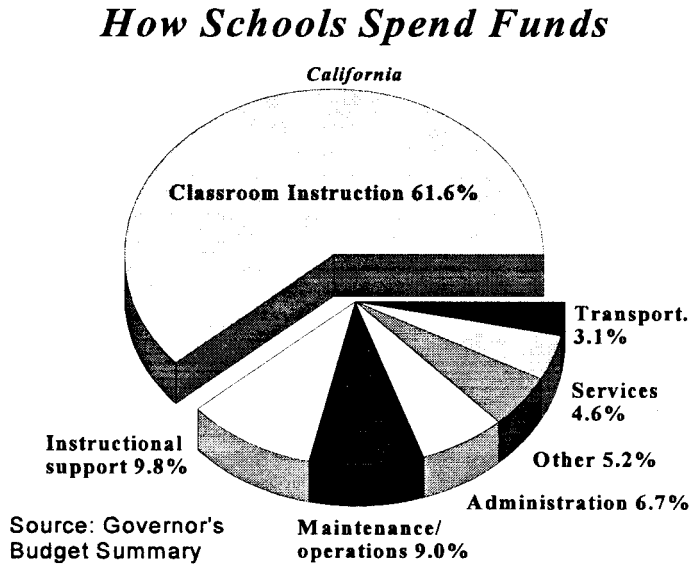
- Supporters of giving students vouchers to purchase private education argue that expenses in public schools are already far beyond what is needed for adequate education. They point to the difference between the average tuition for all private schools

in the nation -- $3,116 -- and the average amount of per-pupil spending nationally in public schools -- $6,857.[133]

- When schools are judged for academic effectiveness in comparison to dollars that are spent, the multiple functions that they serve are often ignored, according to two researchers. They point to data that shows much of increased spending in the past 25 years has gone for new activities other than classroom academics, including training the disabled, student health and nutrition, vocational education and assimilation of non-English speaking children.[134]

Other research has focused on how schools use their basic resources. Schools across the United States consistently spend about 60 percent of their dollars on direct student instruction -- a constant finding that one researcher has labeled remarkable considering the diversity of systems and requirements across the nation. This percentage remains true regardless of how much is spent per pupil, the size of the school, grade level and other factors. And when resources are increased, districts typically continue to spend the dollars in the same proportions on the same types of activities. In other words, districts buy more of the same educational inputs when they have the opportunity. The researchers concluded that if additional revenues are spent in the same manner as current revenues, student achievement rates are unlikely to change.[135]

California's own statistics fall in line generally with the findings on how money is spent. The 60 percent figure for classroom instruction and a national average of 8.7 percent for school-site and central administration comes close to the state percentages, as shown in the chart at right -- although California has a slightly higher level of spending in the classroom and slightly lower level that is attributed to administration.



Spending in California schools reflects amounts slightly greater for classroom instruction and slightly less for administration than national averages.

The entrenched patterns of school spending may explain why the potential impact of giving schools more money is questioned. When districts receive new

funding, they rarely use it creatively or effectively, according to experts who reviewed multiple studies. Resources are not invested in ways that directly raise student achievement. Funds are often used to raise teacher salaries, but rarely in a strategic way to enhance staff expertise. Other increases are used to provide services to special-need students but there is little evidence of increased achievement rates from these investments. Studies in Kentucky, New Jersey and Texas showed that when supplied additional funding, poor districts improve their learning environment but rarely address central education issues that would make a difference in learning outcome.[137]

The question of how money is spent and how much is needed to provide an adequate education often becomes more sharply debated when the question of equity enters the equation. As one expert pointed out to the Commission, equity and equality are not the same. Finding the right formula to treat all children equitably may be even more complex than determining what it takes to fund an adequate education -- and answering the former without knowing the latter is particularly difficult.

When is Equity Fair?

Much of the effort to bring educational equity to all children has focused on equalizing the dollars that are available to districts to purchase education services. But it has not taken long for researchers to realize that impoverished districts flooded with new resources under court order may still yield poor educational results.

While reform efforts across the nation have shifted from equity to adequacy, many would argue the means of measuring have not kept up with the changing goals. Early equity lawsuits targeted broad per-pupil spending -- what is called "horizontal" equity, or ensuring that the same amount is spent on each student regardless of different needs.

From the beginning, courts and policy makers recognized that horizontal equity would not provide equality of education. "Vertical" equity recognizes that children vary in their needs and that equity is achieved when differing needs are equally met. In both cases, verifying equity requires a measurement of input dollars. And in both is an implicit assumption that equal dollars will be used to buy equal amounts of appropriate educational resources.[138]

The National Coalition of Education Equity Advocates has suggested three indicators that might better measure equity that is meaningful to students:

- ***Programmic equity:*** This would focus on educational resources rather than dollars. Consensus would be required to establish standards for such things as structures, services, curricula, books, computers, etc.

- ***Program implementation equity:*** This addresses whether effective programs and services are not just planned and financed but are also in fact provided. The focus would be on the extent to which the curriculum is actually offered across all student groups and the competency of its delivery.

- ***Outcomes equity:*** This measurement shifts the focus to results, comparing what students are able to achieve based on the different learning opportunities provided by schools.

The coalition argues that focusing on equality of dollars or extra resources is not productive if the results do not improve. They write:

> *More than two decades of experience have shown that educational equity for poor, minority and other at-risk students cannot be achieved by a patchwork of "compensatory" services added on to a fictional "mainstream" education that serves all children equally. Equity requires finally providing what we have for too-long pretended exists -- the resources and the will to provide high quality educational opportunity to whatever child enters through a public school's doors.*[138]

California policy makers have discussed tailoring education to each child to meet individualized needs. Senator (then-Assemblyman) John Vasconcellos advocated such a child-by-child approach in a bill that failed to advance in the Legislature. State Superintendent of Public Instruction Delaine Eastin has made personalized student assessments an element of her "challenge" districts, a program that encourages districts to focus on academic results in return for relaxed oversight provisions. But for the majority of school children, California schools continue to offer a one-size -fits-all access to education.

Setting Standards

When the Commission for the Establishment of Academic Content and Performance Standards finally weighs in with an end product, California will have specific goals for its education system and a yardstick to measure results. But while the Commission is expected to address what should be learned and when, the State will still lack standards for many elements of the education system. For instance, are schools adequate if they effectively teach the mandated skills but have leaky roofs and unsafe settings? Is it adequate to have 30-to-1 student-teacher ratios if 90 percent of children can meet goals, or should ratios be dropped to improve the percentage of children succeeding?

Because the questions of funding adequacy and educational equity seem so very fundamental to any evaluation of a school financing structure, the Little Hoover Commission's Education Finance Advisory Committee spent considerable time discussing possible standards. The committee agreed on some basic statements:

- ***More money can make a difference.*** The members agreed that more money can make a difference when it is used well. Setting goals, creating plans based on the goals and measuring the results are important elements that allow money to be used well.

- ***Not all funds are directed to educational activities.*** The advisory committee noted that for convenience, effectiveness and efficiency, the State delivers some non-education services at the school site, such as child care, nutrition and health programs. These added costs should not be confused with the cost of educating children.

- ***Equity of educational opportunity should be a primary goal.*** This would guarantee that all students have:

  - √ Safe and habitable school buildings, with a safe environment for learning.
  - √ Qualified teachers.
  - √ Rigorous curriculum.
  - √ High expectations for performance.
  - √ Adequate materials (supplies and textbooks).
  - √ Access to advanced technology.
  - √ Educational approach/services that meet individual needs.
  - √ Effective leadership.
  - √ On-going professional enhancement.

The advisory committee also reviewed the 1974 work of the so-called Hanson Committee, a model that set standards for providing quality education and attributed costs to the different elements. The Hanson group crafted its report in response to the *Serrano* decision and in an advisory capacity to the State Board of Education. The report adopted a variety of very specific standards to determine costs, including such things as providing one librarian for each 1,000 students, one counselor per 450 students, one certificated resource specialist for each 40 teachers, four instructional supervisors for each 100 teachers, one custodian per 10 teachers and one maintenance person per 15 teachers.[140]

While a logical approach to school funding, advisory committee members questioned the value of updating the document -- an exercise that could involve considerable effort to both determine new costs and reach consensus on appropriate standards in today's environment. Policy makers might find such information interesting, members said, but hardly

useful since it was widely expected that spending required to support such a model statewide would greatly outstrip California's present funding capacity. Advisory committee members also worried that any attempt to craft a model might end up being imposed as a mandate on districts, limiting local ability to make appropriate decisions.

But at least one witness urged the Little Hoover Commission to undertake the task. He said models should be developed for a typical elementary school and a typical high school:

> *Demonstrate what it would take to attract the level of quality of personnel -- teachers, custodians, school secretaries, administrators, cost of facilities, transportation and the like. Set your standards for what you would like to see for your own children. Visit the 10 or 20 best private and public schools in California or the United States. Find out what it takes to educate not only the typical student in the typical school but also the seriously emotionally disturbed student and the student who comes to school with little prior background. Set the standards where you would send your child or your grandchild. Make sure to cover the various requirements commonly accepted by social policy or law.*[141]

Such a model would help people understand what various levels of expenditure can produce and what choices they may trade off to obtain the educational quality that is important to them.

Summary

What constitutes an adequate education and how equity of educational opportunity can be achieved are slippery issues that are rarely directly addressed when it comes time to allocate dollars for schools. In California, the resources available for education are a fairly fixed sum dictated by Proposition 98 and the pressing, competing demands from other services the State must provide.

But just as it is difficult to judge performance of students without adequate goals and assessment practices, the lack of a consensus on standards for providing education makes it difficult to determine whether the State is falling short of what it should be investing in education. When policy makers decide to direct new funding to reducing class size, it would be good to know if that step will improve learning -- but it also would be wise for policy makers to know and understand the trade-off that is made in earmarking funds for that purpose instead of another.

Nothing in today's research or state policies provide the answer to that type of question. As a result, the State's investment in education is made without the kind of information that would be demanded in the business world when billions of dollars are involved. It is hardly

surprising that the results often are not what policy makers were aiming for.

Recommendations

Recommendation 8: The Governor and the Legislature should convene a process to build consensus on what elements constitute an adequate education environment in California.

Just as the Commission for the Establishment of Academic Content and Performance Standards is focused on learning content, a similar commission could consider issues such as class size, school year length, number of course offerings in high schools, building condition and ratios of types of services to students. These elements could then be used to develop standard school components, with coinciding expense estimates, to serve as a model for districts.

Conclusion

Conclusion

California's system for financing education is a complicated response to perceived needs, court mandates, political pressures and passing whims. Complexity carries no particular stigma of evil -- after all, the state is huge, its educational needs are diverse and its communities of interest are far-flung, both geographically and philosophically. But the price for a system that cannot be explained simply and administered easily is high and mounting.

This report documents the problems with a system that only a few experts in the state completely understand. They include:

- √ The difficulty for policy makers, who must make decisions -- often without being sure of the consequences -- that are difficult to communicate and justify to constituents.

- √ The frustration of educators, who must dedicate resources and energy to maximizing revenues -- often in ways that have little to do with their goal of educating students.

- √ The growing distrust in taxpayers, who want good schools, successful students and reasonable costs -- but who often are disheartened by a lack of information and accountability.

The argument for simplifying education finance is strong: California should have a system that the public can understand easily, that educators can live under without altering the focus of their efforts to meet student needs and that the State can track with a minimal amount of paperwork.

But the most compelling reason for reforming the education finance mechanism is to align the system that pays for schools with the goals that the State wants to achieve in the classroom. California is already developing statewide learning standards, with assessment tools to match. The expressed intent of these efforts is to shift how schools are held accountable from process (how many teachers are hired, how many minutes are spent in the classroom) to outcome (what have students learned).

Once the new standards and tests are in place, school districts should devote all efforts to meeting student performance goals -- making decisions that enhance student learning and pursuing reforms that meet diverse student needs. That will be difficult for districts to do if they are still saddled with a financing system that counts noses and tallies paper clips as a means of ensuring accountability. Without a focused commitment on the part of political leaders and policy makers, it is unlikely that the financing system will be redesigned to march in step with the outcome-based education program that will soon emerge from the drawing board.

In addition to solving pragmatic problems and aligning dollars with goals, education finance reform holds the promise of bringing true equity of educational opportunity to students. The phantom equity provided under *Serrano* has not played out in the individual classroom, where students still are met with varying resources depending on their geographic location, the sophistication of their district's management and other factors over which they and their parents have little control. Reshaping the way money flows to schools would give policy makers the opportunity to look beyond dollar equality to the actual resources that are available for children when the school bell rings and classes begin.

Finally, education finance reform can create the context for crafting a rational answer to how much money is needed to provide an "adequate" education. It is difficult to build support for earmarking more resources for education without consensus on what a model system could look like: how big schools should be, what condition should they be in, how many teachers per student are adequate, how many classes should be offered in high school, etc. Identifying such a model system, however, will need to be approached carefully so that it remains a guideline rather than a mandate that usurps local flexibility to meet local needs.

Most experts agree that California once had a premier education system -- and today that is no longer the case. Much of the reform energy in the past few years has focused on restructuring school governance, curriculum approaches and methods of assessing outcome. But the Commission believes how schools are paid for is an integral part of how they function and how they perform. It is therefore imperative that the financing system be reshaped as a key step toward improving the educational outcome for California's children.

Appendices

APPENDIX A

Little Hoover Commission Education Finance Advisory Committee

The following people served on the advisory committee for the Education Finance study. Under the Little Hoover Commission's process, advisory committee members provide expertise and information but do not vote on the final product.

Vera Algoet
Linscott Charter School
Watsonville

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Tom Giugni, Executive Director
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Kevin Gordon, Director Of Gov. Relations
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APPENDIX B

Witnesses at
Little Hoover Commission Education Finance
Public Hearings
January 29, 1997

Ken Hall, Paul Goldfinger and Ray Reinhart
School Services of California

John Coons
University of California, Berkeley

Rick Simpson
California Teachers Association

Lew Hollman and Peter D. Roos
San Fernando Valley Legal Services

February 26, 1997

Delaine Eastin
State Superintendent of Public Instruction

Marian Bergeson
Secretary of Child Development and Education

John Mockler
Strategic Education Services

Paul Warren and Stuart Marshall
Legislative Analyst's Office

Lawrence Picus
University of Southern California

David Walrath
Small School Districts Association

March 26, 1997

Thomas Parrish
Center for Special Education Reform

Debra Elliot Owens
Colusa County Special Education Local Planning Area

Bonnie Mintun
Davis parent

Darlene Ewing
Napa parent

Greg Hudson
Department of Education

Jack Lucas
East San Gabriel Valley Special Education Local Planning Area

David Gross
State Advisory Commission on Special Education

Dale Mentink
Protection and Advocacy Inc.

Michael Rosenberg
Area 3 Board on Developmental Disabilities

Richard Bowen
Learning Disabilities Association of California

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