

SCHOOL FINANCE

PART 3: PROPOSED CHANGES IN SCHOOL FUNDING

Several suggestions for school finance reform have been made in recent years. This part of the study guide’s materials presents some studies and actions taken in other states and looks at some areas of reform that are currently being considered in California.

1. Equity Reform vs. Adequacy Reform

California was the first state in the nation to declare its local school finance funding system unconstitutional (the Serrano case). The reforms that followed were based on the concept of ensuring all students had access to the same amount of funding (equity reform). As reported by the Public Policy Institute of California (PPIC) in its work, *School Finance and California’s Master Plan for Education*, advocates had hoped to increase funding for all students.

“However, the effect of the Serrano case along with Proposition 13 and other legislation brought California school funding from one of the highest in the United States to one of the lowest spending per student. Student test scores also declined during this same period.”⁹

More recently (1999-2002), the Finance and Facilities Working Group of the Joint Committee to Develop a Master Plan for Education researched school funding in depth. Much of their discussion focused around the concepts of equity and adequacy.

Adequacy discussions began to surface in the early 1980s. Adequacy financing can be defined in two parts—outcomes and resources. Odden (1998—cited in the PPIC report above) breaks down adequate financing into two parts: “the level of base spending needed to teach the average student to state standards” and additional resources needed to bring students with special needs up to the same standards. Unlike policies based solely on either equity or standards, the adequacy movement links definitions of adequate resources to those of adequate outcomes. The belief behind this is that, in order to achieve a level playing field, some students need more resources (are more expensive to educate).

Many states have conducted studies on how to implement adequacy funding for their schools (Ohio, Wyoming, Maryland and Oregon). Some of these states were forced to change their approaches to school funding when their state education finance systems were held unconstitutional by state courts and they were required to come up with adequate funding. The Oregon legislature decided to look at school reform following voter approval of ballot initiatives that limited the amount of funds available for schools.

In Ohio, a study was done looking at schools with specified outcomes (low dropout rate, a certain level of student attendance, and certain proficiency level on student tests scores). Based upon this study, an average spending level per student was determined. Additionally, a certain amount was added for students with disabilities, special needs, and transportation needs.

In Wyoming, the state legislature determined what each student needs to receive a proper education. Then a panel of teachers, administrators, and public officials was convened to determine what components were

⁹ Minorini and Sugarman, 1999a; Sonstelie, Brunner, and Ardon, 2000

needed to provide this education. They were directed not to consider the costs. The panel determined a prototype for school size, class size and staff requirements. Costs were determined, with adjustments for cost of living for regional and environmental pricing differences. Funds were distributed in a block grant form and schools could spend these funds anyway they wished.

Oregon followed a process similar to Wyoming's.

2. Categorical Funding Reform

Governor's Proposed 2004-05 Categorical Funds to Revenue Limit Funds—The governor proposed a change in categorical funding in the 2004-05 budget by recommending that 22 categorical programs be folded into the revenue limit. Doing this, he claimed, would give local school districts more control over how to use the funds allocated to them by the state. This proposed change was not a comprehensive one; more changes would be proposed in the future. The programs covered by the 22 categoricals would be retained in the Education Code and local school districts would decide whether to fund them.

The 22 categorical programs contained few legal or federal mandate requirements. As outlined in the Governor's January Budget Summary report, the following programs would be included in the consolidation: At-Risk Youth, Beginning Teacher Support and Assessment, Center for Civic Education, Dropout Prevention, English Learners Student Assistance, Home-to-School Transportation, Instructional Materials, International Baccalaureate, Intersegmental Staff Development, Mathematics and Reading Professional Development, Peer Assistance and Review, Pupil Residency Verification, School Library, Specialized Secondary Program Grants, Staff Development Buyback, Supplemental Grants, Target Instructional Improvement, Teacher Dismissal Apportionments, Tenth Grade Counseling, and Year Round Schools.

Concern was expressed that because the Education Code requirements remained there would not be as much flexibility as claimed. Others feared that these funds would not go towards student-focused programs, but would become part of salary negotiations.

The final 2004-05 budget did not contain the categorical fund shift to revenue limit funds.

Legislative Analyst's Categorical Block Option—The Legislative Analyst has published several reports on categorical reform. In 2002-03 the Analyst proposed creating five different categorical block grants:

- **Academic Improvement Block Grant**—Consolidation of funding for eight categorical programs to provide funding to school districts to meet a range of school improvement needs focused on student academic achievement.
- **Compensatory Education Block Grant**—Consolidation of eight categorical programs for pupils who need additional services to be successful in school, including funding currently provided through the Economic Impact Aid program and remedial supplemental instruction programs.
- **Alternative Education Block Grant**—Consolidation of eight categorical programs currently supporting alternative education settings for students who are at risk of dropping out or entering the juvenile justice system.

- **School Safety Block Grant**—Consolidation of three categorical programs and several state-mandated programs intended to ensure safe and orderly school campuses.
- **Teacher Support and Development Block Grant**—Formula-based block grant which would consolidate 18 teacher preparation, induction, and staff development categorical programs

A Legislative Categorical Block Grant Option—In late August 2004, the legislature passed AB 825 (Firebaugh). The bill, if signed into law by the governor, will become effective for the 2005-06 school year. It reallocates and combines nearly thirty categorical programs into the following block grants:

- **Pupil Retention Block Grant**—includes some of the hourly summer instruction and intervention programs (core and grade 2-6 programs), tenth grade counseling, drop out prevention, opportunity schools, continuation high schools, high risk youth education, and Early Intervention School Success.
- **School Safety Consolidated Competitive Grant**— combines the funding for the school community policing partnership, gang risk intervention, safe school planning and partnership, school-community violence prevention, and safety plans for new schools.
- **Teacher Credentialing Block Grant**— includes the Beginning Teacher Support and Assessment program (BTSA), with the intent that the funds can be used for any of the approved teacher induction programs.
- **Professional Development Block Grant**—combines the funding for the following programs: Instructional Time and Staff Development Program (Buyback), Teaching as a Priority (TAP), and Intersegmental programs. Funding would be based on the number of certificated teachers employed by the districts in the prior fiscal year and other professional development requirements.
- **Targeted Instructional Improvement Block Grant**—provides that a school district that is not in violation of a court order regarding desegregation may spend block grant funds for any purpose authorized by the Targeted Instructional Improvement Grants program (TIIG). This block grant would combine the Targeted Instructional Improvement Grants and Supplemental grants.
- **School and Library Improvement Block Grant**— combines the funding for the following programs: School Improvement Program (SIP) and school library materials.

AB 825 also allows school agencies to transfer up to 15 percent out of any one block grant, and up to 20 percent into any one block grant or other existing categorical program that is not part of the reform proposal. However, school agencies would only be able to transfer into, but not out of, the Pupil Retention and Teacher Credentialing Block Grants.

Other provisions require that school boards provide notice of and conduct public hearings prior to making any transfers. There are also reporting requirements for school agencies regarding the use of the funds, including the effects on pupil achievement. In addition, the bill recommends that the Quality Education Commission (QEC) develop a new funding formula for necessary small schools.

3. Other Reform Proposals

Simplification of the Revenue Limit Calculations—a proposal suggested by the Legislative Analyst. The governor’s January budget had also mentioned how complex the formulas are and how that results in some districts benefitting more than others. The LAO has also noted how these complexities are difficult for the public to understand.

True School-Site Budgeting—an approach based on the premise that the most successful schools are those in which talented principals are given maximum control over their schools—including budgets, hiring, and educational programs—and held accountable for the results. The major proponent of this approach is William Ouchi, professor at the University of California, Los Angeles, who recently published a book, *Making Schools Work*. He has served as an advisor on K-12 education reform to California’s Secretary for Education Richard Riordan and Governor Arnold Schwarzenegger, as well as to the Hawaii Department of Education.

Ouchi researched schools in large urban districts to determine the characteristics of successful schools. In his book, he describes what he considers successful schools in the Houston, Edmonton, and Seattle school districts. Each of these school districts has moved to a more decentralized budget structure. Principals are responsible for the entire budget at their schools, both revenues and expenses. They decide how many teachers to hire, pay the utility bills, etc. Ouchi stresses that for real change to happen in the public schools, principals need to have total local control. From his viewpoint, the central administration does not know what will work best for individual school sites. Currently many school districts (central offices) assign teachers, counselors, office help and other personnel to school sites based upon the school enrollment. Ouchi believes that this limits the school from doing what is needed.

Ouchi also believes that funding needs to change to a weighted student formula, that the practice of teacher seniority needs to be discontinued, and that there needs to be an open enrollment process.

Weighted Student Formula—an essential component of the true school-site budgeting approach that has received wider attention. The EdSource Issue Brief titled “*Weighted Student Formula*” *Concept Enlivens School Finance Debate* has been included with this study guide as Appendix A to provide readers with a more in-depth overview of this increasingly discussed proposal.

Legislative Analyst’s Mandate Funding Change—In the February 2003-04 budget analysis, the LAO recommended increasing the amount given to a block grant concept for the mandates. Funds would be distributed on a per-ADA basis. It is the LAO’s opinion that this would eliminate administrative expenses for the state and school districts, eliminate the incentive to maximize mandate reimbursement claims, and give districts an incentive to say when mandates are no longer cost effective