

Overview of California School Funding System

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School Finance Before *Serrano*

- Education funding largely a local concern – majority of property tax revenues went to schools
- Local school boards set tax rates, with statutory maximum subject to voter tax override
- Sacramento had relatively little control – other than various policies and programs
- Local school districts mainly determined their financing and programs

Serrano v Priest (1971)

- Under the California Constitution, public education is a “fundamental interest” that cannot be conditioned on wealth
- Funding based on local property taxes, and resulting wide discrepancies in school revenue, make educational quality dependent on neighborhood affluence
- Such a finance system denies students equal educational opportunities and is therefore unconstitutional
- Legislative response – first “revenue limits”

Proposition 13

- Passed in 1978, it set the maximum property tax at no more than 1% of assessed value as of 1976
- Cap on tax increases of no more than 2% annually, irrespective of increases in property value, unless property ownership is transferred
- If property is transferred, then it is reassessed; 1% tax rate and 2% cap is applied
- State given authority over state and property tax revenue distribution

Some Prop 13 Impacts on Schools

- Reduced property tax revenues for LEAs by roughly 60%
- Some backfill from General Fund, and K-12 funding becomes dependent on decisions in Sacramento
- LEAs lose property tax authority, and are left with severely limited ability to raise local revenues
- Two-thirds vote threshold for “special purpose” taxes

Revenue Limits

- In 1979, the Legislature responded to both Prop 13 and the *Serrano* cases
- Created a formula for dividing property taxes among cities, counties and districts (ERAF)
- Also created the “modern” revenue limit entitlement (based on type of district, historical spending, etc.) multiplied by district’s average daily attendance (ADA)
- Funding comes from a combination of local property taxes and state revenues – aside from minimum level of state aid, local property tax revenue offsets state general fund revenues (bucket analogy)

Genesis of Proposition 98

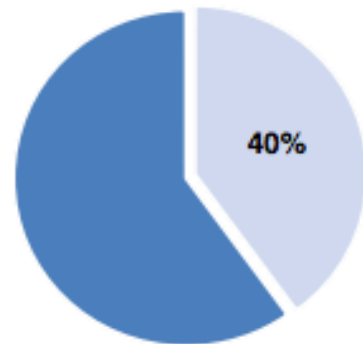
- Sustained decline in funding during late 1980s fuels frustration among K-12 community
- Increasing non-education demands on annual budget negotiations – prisons, welfare, health care, etc.
- In 1987, Gann Limit requires state to give back \$1.1 billion while K-12 funding continues to decline
- CTA leads education community in development and passage of Proposition 98 (1988)
- Goal – to restore California education funding to top 10% among states in nation
- Reality - applies formulas/tests (depending on economic conditions) to determine a “minimum guarantee” of funding for K-12 schools from combined general fund and local property taxes

Proposition 98

Figure 10

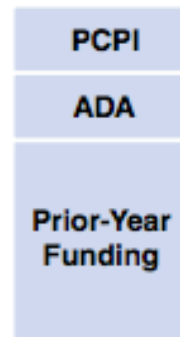
Three Proposition 98 “Tests”

Test 1 Share of General Fund Revenue



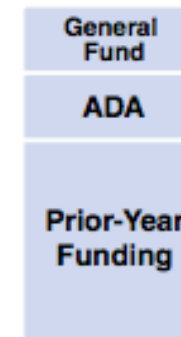
Guarantee based on share of state General Fund revenue going to K-14 education in 1986-87.

Test 2 Change in Per Capita Personal Income (PCPI)



Guarantee based on prior-year funding level adjusted for year-over-year changes in K-12 attendance and California PCPI.

Test 3 Change in General Fund Revenue



Guarantee based on prior-year funding level adjusted for year-over-year changes in K-12 attendance and state General Fund revenue.

ADA = average daily attendance.

LAO

Prop 98

- Minimum Guarantee may be suspended with two-thirds vote of the Legislature
- Big question – has Prop 98 worked?
 - Some predictability and protection in annual budget process
 - Healthy funding growth some years
 - Dramatic cuts still possible
 - California remains chronically underfunded
 - Legislature and Governor are not accountable for education spending

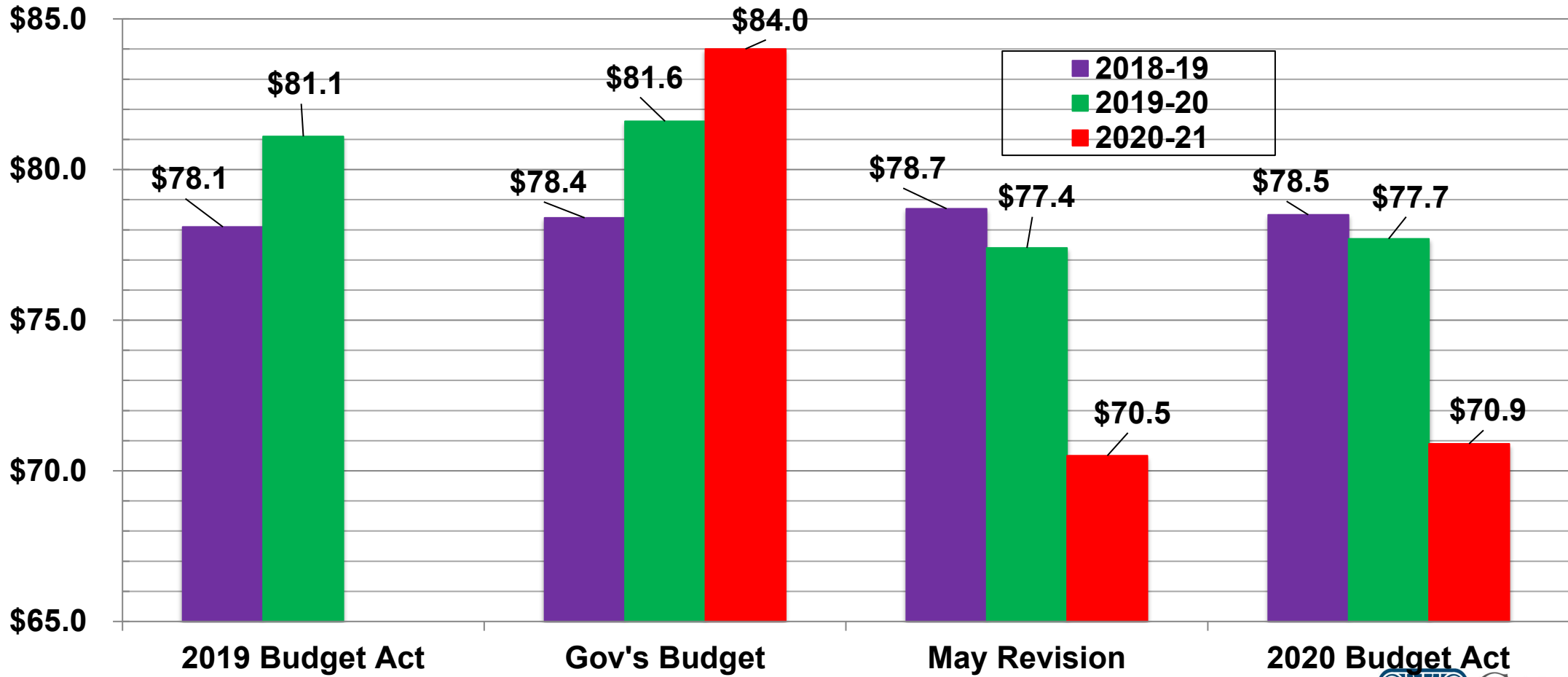
Local Control Funding Formula

- Governor Jerry Brown's school finance reform
- LCFF is about distribution – Prop 98 still dictates the aggregate funding amount for schools
- Weighted student formula approach – replace revenue limits with equal base funding per ADA plus adjustments for poverty, ELL and foster youth
- Governor liked simplicity, fairness, equity and “subsidiarity”
- Political/policy creativity with transition phase, fiscal opportunity with Proposition 30 and economic growth

2020-21 Prop 98

- Loss of state general fund revenue drops 2020-21 Prop 98 “Minimum Funding” Guarantee by more than \$10 billion from 2019 Budget Act
- Three-year hit is about \$13 billion
- Damage in current and fiscal years is mitigated by Prop 98 deferrals, pushing total of about \$13 billion of K-14 payments into the 2021-22 fiscal year

Prop 98 Changes Over the Last Year

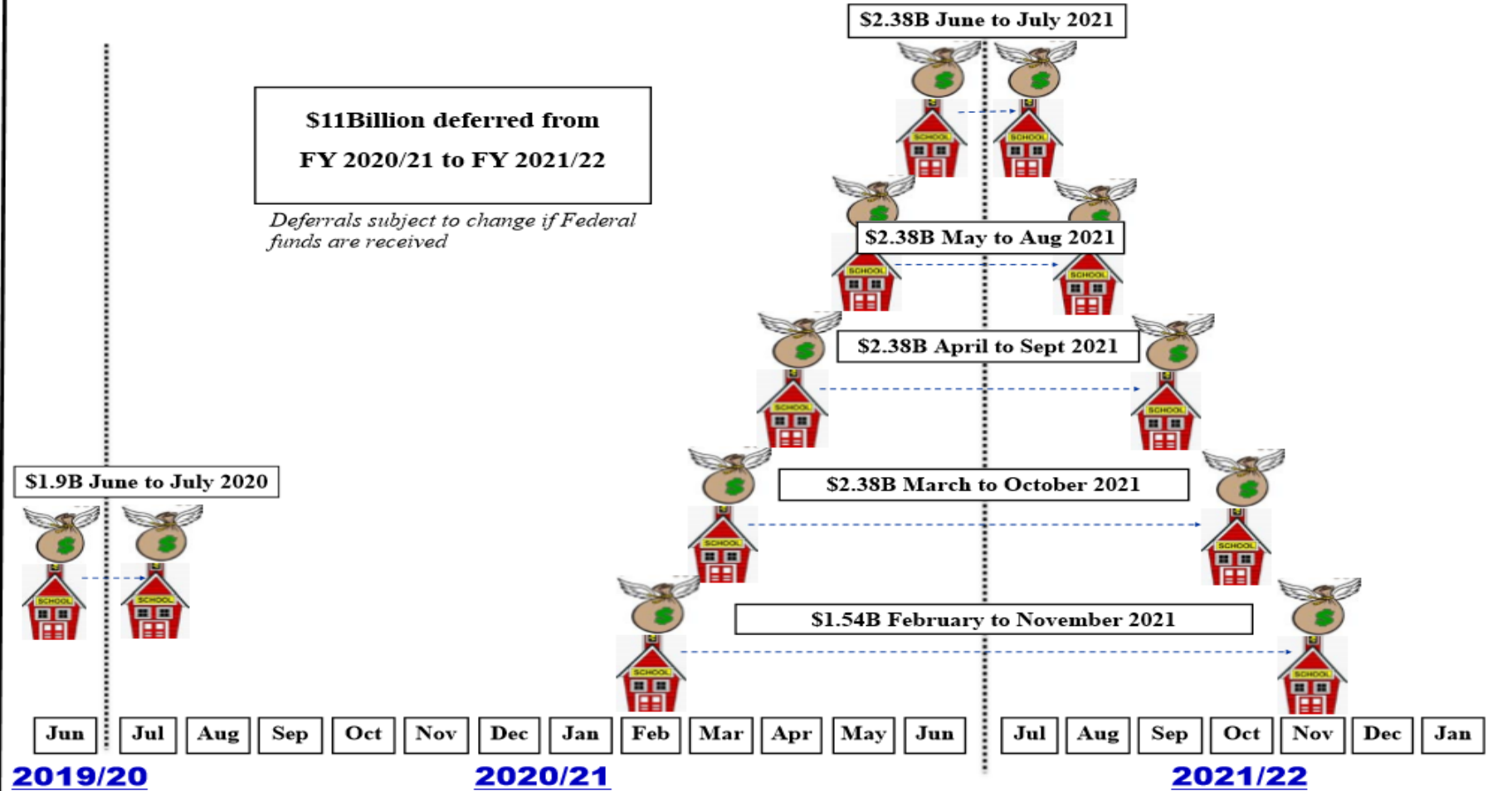


Apportionment Deferrals

As of State Budget Adoption
Fiscal Year 2020/21

**\$11 Billion deferred from
FY 2020/21 to FY 2021/22**

*Deferrals subject to change if Federal
funds are received*



LCFF

- **Entitlement** = Base Grant + GSAs + Supplemental Grant + Concentration Grant + Add-ons (TIIG and Transportation)
- Base Grant per ADA (with Zero COLA on 2019-20 base):
 - K-3 = \$7,702
 - 4-6 = \$7,818
 - 7-8 = \$8,050
 - 9-12 = \$9,329
- Grade Span Adjustments: 10.4% = \$801 per K-3 ADA
2.6% = \$243 per 9-12 ADA
- Supplemental Grant = 20% of Adjusted Base Grant
- Concentration Grant = 50% of Adjusted Base Grant
- TIIG and HST Add-ons remain constant
- Total LCFF about \$63 billion for 2020-21

Major K-12 Funding Sources

- Proposition 98 = State General Fund and local property tax support for LEAs
- State Debt Service & State Operations
- Federal Funds (about 10% of total)
- Lottery (about 1%)
- Other local funding
 - Parcel Taxes, Donations
 - Bonds, Developer Fees

How well does this work?

- California is the 5th largest economy in the world
- But spends only 3% of taxable income on its schools, ranking 40th among states in portion of resources devoted to education (Ed Week 2019)
 - Personal income percentage is now 3.2%, down from about 4% in the 1960s (returning to 4% would increase school spending by more than \$16 billion)
 - Reaching the national average (3.7%) would add \$11 billion
 - Illinois is at 4.5%, New Jersey at 4.9% (similar effort would generate \$37 billion for California schools)
- Per-pupil spending is low – California ranks 38th (Ed Week 2019) in the nation when adjusted for cost
- Student-teacher ratio is nearly the worst (49th) in the nation
- Compared to their peers, California students are at a competitive disadvantage