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From Equality to Equity: California K-12 School District Funding Since Proposition 13

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From Equality to Equity: California K-12 School District Funding Since Proposition 13

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Abstract

This paper addresses the relationship between Proposition 13 and public school funding in California. Proposition 13 capped local property tax increases at one percent and reset property value assessments to the 1975-76 level. Proposition 13 decreased local property tax revenues and limited the ability of local governments to raise taxes going forward. Proposition 13 has been widely criticized for its effects on the local and state financial system, and the adverse effects it had on the ability of the state to provide public services such as education. Proposition 13 passed by a vote of 65 percent to 35 percent, and demographic trends prior to 1978 provide context for why it passed and how. Proposition 13 was a retaliation against rising taxes and big government, but the effects it had on California's education system are well researched. The fundamental change in how schools are financed is largely due to the reduction in local government funding from Proposition 13. California's education system became underfunded following Proposition 13 and education levels are only now recovering back to the national average. An analysis of how California's public schools are funded today shows an increase in equity, yet the state remains one of the worst across several education metrics when adjusted for cost in living. Recent propositions triggered an overhaul of education funding, and these trends suggest that California is heading towards a more equitable education system. The assumption that increased per-pupil funding will provide better results is being tested, but there is no guarantee that funding is the sole answer to a healthy education system.

Introduction

Education funding is a common indicator of state economic health, and remains a key issue for budget allocation. In 1970 California was a top fifteen state in per-pupil funding, indicating a healthy economy and strong education funding.[1] As the largest state at the time, California was one of the most successful models of big government and big spending. In 2008, California fell to the eleventh lowest in per-pupil funding.[2] Several factors contributed to the drop in education spending, but the passing of Proposition 13 stands above the rest as an indicator of detrimental change in state financing of schools. Proposition 13 passed in 1978 and marks a turning point in the overall tax and financial systems in California. Proposition 13 is often called "The tax revolt" and was the culmination of collective opposition to rising property taxes in California. Proposition 13 sparked an anti-tax fervor across the nation and inspired other states to pass their own anti-tax Propositions. Proposition 13 contained several major changes to property tax and local government funding structure in California. The first was that it reset the base year value of real properties to their 1975-76 market valuation, meaning that the base market value for homes in 1978 would be reduced to their valuations from 1976. A second stipulation was the value of a house can only be reassessed if the property changes ownership or has a new construction, in which case, the property is reassessed at current market value.[3] The reassessment establishes the new base value year, otherwise property value assessments are limited to 2% annual increases on the established base value year. The largest change for homeowners was limiting property tax rates to 1% increases of the assessed

[1] U.S. Department of Education, National Center for Education Statistics, Statistics of State School Systems, 1969-70; Revenues and Expenditures for Public Elementary and Secondary Education, 1979-80; and Common Core of Data (CCD), "National Public Education Financial Survey," 1989-90 through 2018-19. (This table was prepared September 2021.)

[2] Ibid

[3] Real Property Division, "Understanding Proposition 13," Office of the Assessor, Santa Clara County (Santa Clara County Assessor's Public Portal, November 2, 2018), https://www.sccassessor.org/faq/understanding-Proposition-13.

value annually. There are small exceptions to each section of Proposition 13, but this is how it functioned for the majority of homeowners. The radical changes of Proposition 13 signaled the end of trust in big government, and indicated a future of limited funding for government services. Education was one of several government programs that experienced major budget cuts and seemingly perpetual funding issues following Proposition 13. The issues that stemmed from Proposition 13 are due to the proposition and timing of when it passed. Prior to the 1970's California experienced a population boom and an increase of funding for the education system. Districts across California funded numerous educational initiatives and were still able to build a budget surplus in the process.[4] However, the reduction of property tax collection for school districts due to Proposition 13 forced schools to rely on state general revenues which put schools at the mercy of the state legislature. The initial effects of Proposition 13 were masked by bail-out funds from the budget surplus California built up through the 1970's, but the lasting effects became evident in following decades. Budget cuts represent one part of the problem, but the change in control over school funding and allocation presented a systematic issue. Districts lost control over school funding, which burdened the state with creating an equitable solution for all districts. Proposition 13 was not intended to directly affect the financing of public schools in California, however changes to the state-local finance system were sure to affect all aspects of public funding. There are several components necessary in understanding the effects of Proposition 13 on equity of California school district funding: historical processes for funding California schools, the immediate effects of Proposition 13 on the education system, how schools are funded in California today, and subsequent policies that affected school district funding. The following sections identify the overall connection between Proposition 13 and the condition of California's schools today.

[4] Catterall, James S., and Emily Brizendine. "Proposition 13: Effects on High School Curricula, 1978-1983." American Journal of Education 93, no. 3 (1985): 327–51. http://www.jstor.org/stable/1085384.

Chapter 1: Importance of Proposition 13

1.1 The Rise of Proposition 13 and the Tax Revolt in California

One of the primary components of the success of Proposition 13 is Howard Jarvis, who was the driving force behind the Homeowners' Revolt. Howard Jarvis sponsored Proposition 13 alongside Paul Gann of Sacramento. Howard Jarvis dedicated his life to fighting rising taxes and big government, and Proposition 13 was his magnum opus. Jarvis was able to secure his victory through a grassroots campaign and the perfect circumstances for an anti-tax wave. The movement against rising taxes in the 1970's ran contrary to previous decades of big government and the preceding political establishment in California. Following World War II, California and the rest of the nation experienced a population boom, economic growth, and increase in infrastructure. California exemplified the possibility of successful big government and positive effects of high government spending. The figurehead of this establishment was 32nd governor of California, Edmund Gerald "Pat" Brown. Pat Brown was elected governor in 1958 and served two terms before he was defeated by 33rd governor of California, Ronald Reagan, in 1966. Pat Brown transformed California into one of the premier states in the U.S. Pat Brown championed civil rights policies, infrastructure development, sustainability programs, and economic development.[5] He is best remembered for the State Water Project which is the system of dams and reservoirs that are still in use today. Pat Brown's administration also oversaw the construction of seven state colleges and universities, as well as the development of new freeway systems. His tenure as governor was marked by big spending, high taxes, and results. Californians in the late 1950's and early 1960's were willing to pay high taxes in return for good quality public services. The willingness of citizens to invest in government services reflected the nationwide trust in the government which was at its peak at the end of John F.

[5] "Edmund G. 'Pat' Brown," California Museum, February 17, 2012, https://www.californiamuseum.org/inductee/edmund-g-pat-brown.

Kennedy's presidency.[6] The trust in government began to wane following Kennedy's assassination and Lyndon B. Johnson's inauguration. Civil unrest and stagnating economic growth throughout the 1960's caused declining trust in the government. Ronald Reagan's two terms as governor of California was a period of transition, as he temporarily froze government hiring but increased taxes. Reagan also enacted a bipartisan welfare reform in 1971, which limited the amount of recipients but increased benefits for the rest of welfare recipients.[7] California was transitioning from big government and big spending towards a limited government model with decreased spending. Although the state was spending less at the time, taxes continued to increase which led to a budget surplus. Reagan was succeeded by Pat Brown's son, Edmund G. "Jerry" Brown, in 1975.[8] Jerry Brown had a distinct tenure as governor compared to his father. Jerry Brown continued some of the social and civil rights initiatives his father advocated for, including increased representation of minorities and women. His fiscal policies were vastly different, as he advocated for lower taxes and less government spending. Jerry Brown's low spending created a massive budget surplus in California which created unrest among citizens who were continuing to pay steep taxes. By the time Jerry Brown was inaugurated, a movement against big government and high taxes was already forming. People had become cynical of big government across the nation because of the Vietnam war, two oil shocks, and Nixon's Watergate Scandal. This is when Howard Jarvis stepped in to lead the movement against rising property taxes in the 1970's. Jarvis was a lifelong advocate for low taxes and limited government, which is what drove him to lead the tax revolt in California. The audience and supporters of Proposition 13 were primarily middle class, older, white homeowners who felt an

[6] Peter Bell, "Public Trust in Government: 1958-2022," Pew Research Center - U.S. Politics & Policy (Pew Research Center, June 6, 2022), https://www.pewresearch.org/politics/2022/06/06/public-trust-in-government-1958-2022/.
[7] "California Legislature Approves Welfare Reform Bill after Compromise with Reagan," The New York Times (The New York Times, August 12, 1971), https://www.nytimes.com/1971/08/12/archives/california-legislature-approves-welfare-reform-bill-after.html.
[8] Bell, Peter. "Public Trust in Government: 1958-2022." Pew Research Center - U.S. Politics & Policy. Pew Research Center, June 6, 2022. https://www.pewresearch.org/politics/2022/06/06/public-trust-in-government-1958-2022/.

emerging financial burden because of increases in property tax. Jarvis' passion for reducing taxes can partially be attributed to his job as a paid lobbyist for Los Angeles apartment building owners, who were sure to benefit from the movement. Howard Jarvis was a Utah native and Republican who moved to California in the 1930's. His reputation was predicated on his criticism of big government, and advocacy against rising taxes. Proposition 13 was the peak of Jarvis' career as he had unsuccessfully campaigned for the Republican Senate nomination in 1962, and for Los Angeles Mayor in 1977. On the surface, Proposition 13 seemed like it would align with then-governor Jerry Brown's political stance on lower taxes, but Brown had to fight against Jarvis and his Proposition because of how detrimental it would be to the government budget, and the damage it would do to government social services. Jarvis partnered with Paul Gann, the Sacramento based insurance salesman, to come up with an amendment that would cut property taxes by 57%.[9]

The Jarvis-Gann initiative rallied homeowners during a time of ballooning property taxes, but it was the inaction of the state government that allowed the drastic measures of Proposition 13 to pass. The surplus of government funds and failure to legislate one of the twenty-two tax relief Propositions in 1977 made the success of Proposition 13 possible in the following year.[10] California amassed a $3.8 billion budget surplus by 1977-78, but failed to put it to use for improved government services.[11] This fueled the Jarvis-Gann initiative and enraged homeowners that were experiencing growing property tax bills over the last decade. "In 1968, the average single-family homeowner in California paid $362 in property taxes annually. A decade later, that figure had

[9] "Howard Jarvis," Ballotpedia, accessed April 28, 2023, https://ballotpedia.org/Howard_Jarvis.
[10] Chapman, Jeffrey I. "Proposition 13: Some Unintended Consequences" Public Policy Institute of California, (1998). https://www.ppic.org/publication/Proposition-13-some-unintended-consequences/
[11] "Proposition 13: Its Impact on California and Implications - California Budget and Policy ...," California Budget Project, April 1997, https://calbudgetcenter.org/app/uploads/2018/09/Issue-Brief_Proposition-13-Its-Impact-on-California-and-Implications_04.1997.pdf.

exploded to $811.18."[12] The shallow growth rate of government expenditures through the mid 1970's contradicted the high taxes citizens were paying. From 1969-70 to 1975-76, general property tax revenue increased by 152.95% and represented 23.86% of total revenue.[13] This was a rapidly increasing trend which was making middle-class homeowners incapable of paying their mortgages, and forcing them out of their homes. Support and opposition to Proposition 13 was fairly balanced leading up to the vote, but Jarvis was able to secure an important release of information that swayed the vote in his favor. Prior to voting Jarvis pressured the state to release increases in property taxes for the coming year, which tipped the scale. The vote ended in around 2/3 of voters in favor of the Jarvis-Gann initiative.

1.2 Policies Supporting Proposition 13

Proposition 13 is supported by subsequent propositions which aimed to solidify the effects of Proposition 13. Proposition 4 or "The Gann Limit" set appropriation limits on local government appropriations and state expenditures. Proposition 4 passed in 1979 and was sponsored by Howard Jarvis' partner Paul Gann. An appropriation authorizes a local government to spend public funds by permission of legislation, state constitution, or a vote by citizens.[14] Expenditures are the actual fulfillment of financial obligations from appropriated funds. The appropriations are essentially the allocated funds for a given task, and expenditures represent the actual money spent. Proposition 4 imposed limits on certain appropriations, essentially limiting the government's ability to spend tax revenue on certain programs. The expenditures limited for the state government was decided by

[12] Edward Nelson, The Great Inflation of the Seventies: What Really Happened? 1, 4-5 Fed. Reserve. Bank of St. Louis, Working Paper No. 2004-001, 2004, https://perma.cc/U79WT9YW

[13] Kenneth Cory, "Annual Report of Financial Transactions Concerning Cities of California," The California Local Government Finance Almanac, 1975, http://californiacityfinance.com/.

[14] "An Analysis of Proposition 4 The Gann 'Spirit of 13' Initiative," Legislative Analyst, 1979, https://lao.ca.gov/reports/1979/20_analysis_of_Proposition_4_the_gann_spirit_of_13_initiative.pdf.

taking into account the total income of the state, and isolating specific tax revenues or proceeds from taxes.

Proceeds of Taxes

Less

Unappropriated Proceeds of Taxes

Equals

Appropriations from Proceeds of Taxes

Less

Exempted Appropriations

Equals

Appropriations Subject to Limitation

[15]

Source: Legislative Analyst Office, 1979

The "proceeds from taxes" are primarily made up of personal tax revenue, although other tax revenue sources are included. The "proceeds from taxes" represents the pool of possible revenue streams which are subject to limitations, but not all revenues included in the pool of proceeds from taxes end up being limited. The amount of "appropriations subject to limitation" changes each year depending on legislative actions and amount of revenue available. Determining local government appropriation limits is a two step process that begins with the appropriations limit from the previous year which is adjusted to the following year through multiplying it by the change in consumer price index (CPI) and population.[16] Temporary adjustments to local appropriations limits could occur each year if it is voter approved, while permanent changes require legislative action. For example, a permanent change in the limit could occur if a local government transfers financial responsibility of

[15] "An Analysis of Proposition 4 The Gann 'Spirit of 13' Initiative," Legislative Analyst, 1979, https://lao.ca.gov/reports/1979/20_analysis_of_Proposition_4_the_gann_spirit_of_13_initiative.pdf.
[16]Ibid

a service to another government entity or private company. Proposition 4 works with Proposition 13 as a cap on government spending at 1978-79 rates, and requires reimbursements of state mandated costs to local governments.[17] Proposition 4 only increases government spending limits based on annual changes in CPI and population, which prevents the state from overspending tax revenues except in extenuating circumstances. Proposition 4 builds on the revenue limit system by limiting school funding, because it was one of the appropriations subject to limitations under the initiative. When Local Educational Agency (LEA) funding by either local or state governments exceeds the Gann Limit, that LEA has to either issue a refund to taxpayers or request to share some of the state's limit.[18] LEAs often exceed the Gann Limit due to increases in state tax revenue or decreases in average daily attendance (ADA) which triggers rebates to taxpayers. The state and LEA limits are essentially administered as a combined limit which allows LEAs to request to use the state's limit when they exceed the Gann Limit. Changes to how Proposition 4 interacts with LEAs were recently passed in 2021 under AB 130. AB 130 requires increases in the state share of the Gann Limit for LEAs reaching or going beyond the limit, and no longer requires state approval to do so.[19] LEAs with excess limits are required to decrease their limit and give it back to the state. This allows an LEA to spend more of the state limit when needed, or transfer unused limit back to the state.

Propositions 58 and 193 effectively allowed changes in ownership without a reassessment of property value, giving the new owners the same tax benefits as the previous owners. Propositions 58 and 193 allows families to inherit legacy tax rates, build generational wealth, and discourages sales of property to new owners. Proposition 13 previously allowed reassessment of property values upon a change in ownership or new construction of a property. Change in ownership did not originally

[17] Timar, Thomas. "How California Funds K-12 Education." University of California, Davis, September 2006. https://cepa.stanford.edu/sites/default/files/2-Timar(3-07).pdf.
[18] Department of Education, "Gann Limit," Gann Limit - Accounting (CA Department of Education, January 30, 2023), https://www.cde.ca.gov/fg/ac/gl/#:~:text=What%20is%20the%20appropriations%20limit,spending%20under%201978%E2%80%9379%20levels.
[19] Ibid

specify rules regarding inheritance of property and the effect this would have on the new owner's property tax rate. This was addressed by Proposition 58 in 1986. Proposition 58 is a very straightforward initiative which allows a parent to transfer ownership of property to their children without a reassessment in property value. Sale or transfer of property to the child allows the child to maintain legacy property tax rates that their parents had, and not pay taxes according to the current market value of the property.[20] An additional Proposition was passed in 1996 which allowed grandparents to transfer property to their grandchildren without reassessment of property value. Proposition 193 basically functions the same as Proposition 58 as transfer or sale of property to grandchildren allow the new property owner to maintain legacy property tax rates of their grandparents.[21] In 2020, The eligibility requirements for Propositions 58 and 193 were changed by Proposition 19. Proposition 19 established new regulations for property tax benefits upon transfer of ownership from parents or grandparents to children and grandchildren.[22] As it applies to property tax benefits, Proposition 19 requires the property to be the principal residence of the transferor, and for the transferee to make the property their principal residence within a year of transfer. Proposition 19 is a measure that makes it more difficult for current Proposition 13 beneficiaries to compound generational property wealth, as owners of multiple properties cannot pass tax benefits of all properties to their children.

[20] California Proposition 58. Accessed April 2023. https://californiaProposition58.org/.
[21] Office of the Assessor-Recorder, "City & County of San Francisco Office of the Assessor-Recorder," Reappraisal Exclusion from Grandparent to Grandchild | CCSF Office of Assessor-Recorder (City & County of San Francisco), accessed April 2023, https://www.sfassessor.org/tax-savings/exclusions/reappraisal-exclusion-grandparent-grandchild.
[22] Los Angeles County Assessor's Office, "Proposition 19," Los Angeles County Assessor - Proposition 19, April 1, 2021, https://assessor.lacounty.gov/homeowners/Proposition-19.

1.3 The Effects of Proposition 13 on California Schools

Proposition 13 forced schools to make decisions on what programs, staff, and other financial costs had to be cut in order to preserve the core needs of schools. The immediate effects of Proposition 13 were dampened by state surplus funds which prioritized schools as a beneficiary of bail out funds.[23] Five years after Proposition 13 passed, schools began to experience the effects of budget cuts. A study by James S. Catterall and Emily Brizendine published in May of 1985 estimated a net loss of 20% real resources per pupil and 25% lower budget for schools in 1983.[24] In their study of eight urban school districts, which accounted for 25% of students at the time, Catterall and Brizendine researched the curricula changes, financial changes, and administrative decisions made over the five year period after Proposition 13 passed. The reduced budget for urban school districts forced most schools to decide which expenditures such as staffing, school materials, and employee salaries were essential or non-essential. One of the first efforts to keep stability of essential school functions was to immediately eliminate all summer schools programs which previously served one-fifth of schoolchildren.[25] Eliminating summer school programs was the better alternative to immediate district teacher layoffs, as it was already expensive to pay for summer school teachers. Teacher layoffs did not begin immediately, but reduction in staff was a common occurrence for the eight study districts in the following five years. Further staffing layoffs included professional school psychologists and school counselors, and many schools were forced to reassign counselors to teaching positions leaving students with no professional mental health resources. Two of the eight districts had significant teacher layoffs, and all districts exhibited non-replacement for resigning teachers. Reduced teaching staff caused reductions in course offerings and programs, which stripped

[23] Catterall, James S., and Emily Brizendine. "Proposition 13: Effects on High School Curricula, 1978-1983." American Journal of Education 93, no. 3 (1985): 327–51. http://www.jstor.org/stable/1085384.
[24] Ibid
[25] Ibid

schools of enrichment opportunities for students. The material effect of financial restrictions manifested in the form of resource shortages for many schools. Classes had shortages of textbooks and laboratory supplies, and were unable to upgrade outdated or broken equipment. The overall quality of education and classes decreased as the financial pressure on schools forced them to scale back on costs. Study districts experienced the most issues with math and science staffing because of the limited number of qualified teachers. Employing qualified math and science teachers was difficult because there were better opportunities outside of education for qualified math and science teachers. Study districts reassigned non-major teachers to math and science positions creating lower quality classes for these subjects. Class sizes ballooned because of limited course and section offerings which decreased options for students to take electives. The tables below list the study districts and the most notable changes for each one.

TABLE 4

Quantifiable Curriculum Observations in Study Districts

District	Curriculum Change or Consistency, 1978–83
San Francisco Unified School District	1. 40 percent reduction in total class offerings 2. 1979: 1,200 teacher layoffs, 800 subsequently rehired 3. 1980: 400 permanent teacher layoffs 4. 1981 and 1982: 100 teachers lost through attrition, no replacements 5. Elimination of all advanced placement courses if fewer than 12 pupils enrolled 6. Sample high school: two pages of courses eliminated from six-page course catalog 7. 10-year pattern of shifting non-majors into mathematics teaching assignments upheld 8. Elimination of regular summer school
San Diego City Unified School District	1. Physical education eliminated, grade 12, and made optional, grade 11 2. 1983: mean age of teachers = 60 years 3. Mathematics requirement for graduation increased from 1 to 2 years 4. No changes in length of school day or number of periods 5. 1983: no new certificated personnel hired 6. Elimination of summer school
Los Angeles Unified School District	1. By 1983, 1,000 non-majors assigned to teach math classes 2. Credits for graduation reduced to 150 from 165 3. Cumulative reduction of teaching force of 1,500 4. Sixth period dropped for grades 11 and 12 5. Elimination of summer school
San Jose Unified School District	1. One period per day eliminated, grades 11 and 12 2. Layoffs of teachers with 7 or fewer years of district employment 3. Reduction of 10 units of credit required for graduation 4. Reorganization toward 4-year high schools, 2-year middle schools (grades 7 and 8) 5. Elimination of summer school
Oakland Unified School District	1. Additional year of math required for graduation

(Table continues on p. 346.)

26

Source: Catterall & Brizendine, 1985

[26] Catterall, James S., and Emily Brizendine. "Proposition 13: Effects on High School Curricula, 1978-1983." American Journal of Education 93, no. 3 (1985): 346, Table 4. http://www.jstor.org/stable/1085384.

TABLE 4 (*Continued*)

District	Curriculum Change or Consistency, 1978–83
Oakland Unified School District (*continued*)	2. Additional semester of English required for graduation 3. One semester of foreign language exploration course added to graduation requirements 4. Elimination of summer school
Sacramento City Unified School District	1. Elimination of all field trips 2. No replacement of retired/resigned teachers 3. No in-service appropriations for teachers assigned to mathematics without college major 4. 1978: 10 percent of teachers laid off 5. Five additional credits required for graduation 6. 1978: reduction of class periods to five from six 7. Cumulative reduction of 30 school psychologists 8. Elimination of summer school
Long Beach Unified School District	1. Elimination of mini-courses, all departments 2. One-half of English electives dropped from catalog 3. Total of 50 elective offerings dropped, all departments 4. Additional 1 year of English (III) required for graduation 5. Elimination of summer school.
Fresno Unified School District	1. Additional year of math and science required for graduation 2. Additional semester of parenting education and career education required for graduation 3. Increase of required credits for graduation to 225 from 210 4. Stable number of class periods and length of school day 5. Elimination of summer school [27]

Source: Catterall & Brizendine, 1985

[27] Catterall, James S., and Emily Brizendine. "Proposition 13: Effects on High School Curricula, 1978-1983." American Journal of Education 93, no. 3 (1985): 346, Table 4. http://www.jstor.org/stable/1085384.

Almost every district reported reductions in course catalog or class periods to compensate for reduced staff and resources. Among the most widely reported course reductions were performing arts, driver education, social science electives, and honors courses. The study districts showed several similarities in their response to the financial limitations imposed after Proposition 13. The commonalities in curriculum reduction, staffing layoffs, and elimination of certain programs across the study districts indicates a shared problem and method of mitigation. California's school districts experienced a centralization of finance that made them dependent on state funds instead of the former method of local property taxes. The financial system for schools prior to Proposition 13 allowed districts to essentially guarantee the necessary education budget by levying property taxes at a rate that would fund the majority of the education budget for the district. The minimization of financing power for districts meant districts were no longer guaranteed they would receive funds needed to maintain their current structure and this forced them to prepare for budget cuts. Financial insecurity in school districts was expected because there was no certainty in how long the state treasury surplus would be able to fund schools. Over the five year period, bail out block funds were reduced and replaced by a more regular state funding system. Once the state assumed control over school district funding, schools lost control over their budgets and began to make critical reductions across the board. The study districts all had similar priorities to protect, which included teacher salaries and essential parts of the curriculum.

1.4 How Proposition 13 Contributed to Inequality

Proposition 13 capped the property-tax increases below the rate of inflation, incentivizing homeowners to not sell their home and instead pass on the low property tax rate to their children.[28] This allowed elderly property owners to create generational wealth by holding on to property, which

[28] Evelyn Danforth, "Proposition 13, Revisited" (Stanford Law Review, February 2021), https://www.stanfordlawreview.org/print/article/Proposition-13-revisited/.

put a heavier burden on new neighbors that buy property. Proposition 13's stipulations against changing ownership meant that people buying a house after Proposition 13 would pay far higher taxes than those who bought houses before 1978. Evelyn Danforth best described the effect it has on modern day buyers in the 2021 study *Proposition 13, Revisited,*

> But while Proposition 13 would amount to a tax subsidy for incumbent property owners even if all things were equal, all things have not been equal in California since 1978. Over the past four decades, the value of property statewide has skyrocketed, increasing at a clip that vastly outstrips both annual rates of inflation and Proposition 13's maximum permissible increases in assessed value. Between 1980 and 2018, the state's median home price increased sevenfold.[29]

Property value in California has grown tremendously, largely due to the influx of technology companies, which has allowed legacy property owners to benefit from higher property value with low tax rates. New buyers are forced to deal with the inverse as they have far higher property tax rates because of the high value of property in California today. The established homeowners pay the legacy tax rate but get the benefits of the increased value of their property. Who owns the homes is also a key point of inequality. Proposition 13 only passed a decade after redlining practices were officially prohibited, yet the exclusionary practices of redlining already decided who owned homes and is part of the reason why Jarvis was supported by an elderly white demographic. Redlining was federally sponsored segregation and functioned by denying Insured FHA loans to black home buyers, which meant their only option was to buy homes on contract.[30] White home buyers were able to receive the FHA loans and build equity in the best neighborhoods leading up to Proposition 13. "According to the most recently available census data, the rate of homeownership among white

[29] Evelyn Danforth, "Proposition 13, Revisited" Stanford Law Review, February 2021, https://www.stanfordlawreview.org/print/article/Proposition-13-revisited/.

[30]City of San Leandro, "What Is Redlining?," What is Redlining? | San Leandro, CA (Public Library), accessed April 2023, https://www.sanleandro.org/1088/What-is-Redlining.

Californians is almost twice as high as the rate among African Americans and about 50% higher than the rate among Latinx Californians."[31] White homeowners were able to establish communities with better resources and this resulted in communities with better public services. Homeowner demographics are the result of racial policies, and while Proposition 13 is a property tax amendment it still contributes to racial inequalities. The benefits of Proposition 13 didn't end with homeowners, as commercial real estate and any private company that owned property in 1978 likely benefited more than the average homeowner. Companies that were established in California before Proposition 13 save millions in property taxes because their properties are assessed at market values far below the true worth of the property. These companies can continue living as long as they are operational and rarely sell their property, meaning a company such as Disney saves hundreds of millions of dollars on a property like Disneyland because of the property tax rate.[32] Landlords were also big winners of Proposition 13 as they received low property tax rates and growing revenue from the high priced rental market. Elderly homeowners, landlords, and commercial real estate owners, were the three primary beneficiaries of Proposition 13. Proposition 13 was marketed as a residential homeowner tax relief amendment, but the real beneficiary of Proposition 13 were commercial property owners who received a huge tax break. Commercial property owners currently receive nearly two-thirds of tax savings from Proposition 13, while residential homeowners still receive about a quarter of the tax savings.[33] The state and federal governments were also beneficiaries of Proposition 13 as they received billions of dollars in property tax savings. The federal government

[31] Evelyn Danforth, "Proposition 13, Revisited" Stanford Law Review, February 2021, https://www.stanfordlawreview.org/print/article/Proposition-13-revisited/.
[32] Ibid
[33] "Proposition 13: Its Impact on California and Implications - California Budget and Policy ..." California Budget Project, April 1997. https://calbudgetcenter.org/app/uploads/2018/09/Issue-Brief_Proposition-13-Its-Impact-on-California-and-Implications_04.1997.pdf.

accounted for 22% of the initial tax savings while the state government accounted for 14%.[34] Young home buyers were a demographic that experienced major drawbacks from Proposition 13. Younger home buyers are faced with market value assessments in an already expensive real estate market.[35] Young home buyers receive a smaller share of the tax benefits from Proposition 13 and face higher prices for homes and a larger share of the property tax burden.

Local governments were the biggest losers of Proposition 13 as their budget was tied up in local property taxes before Proposition 13. The immediate effect of Proposition 13 on local governments was reduction in over 50% of their revenue, and a need to find alternative revenue sources.[36] Ability to secure replacement revenues for local governments varied greatly based on their jurisdictions. Cities, counties, and school districts all had property tax revenues cut by more than half over the following 15 years. Schools, an extension of local government authority, are within the most negatively impacted groups from Proposition 13. Property taxes collected by counties or districts provided the primary revenue stream for schools. Proposition 13 changed the role of local governments in property tax collection, distribution of tax revenue, and took responsibility for school funding away from local governments. Districts and municipalities used to set their own property tax rates and receive the revenue from it, but after Proposition 13 the state government set property tax rates and controlled distribution of revenue collected.[37]

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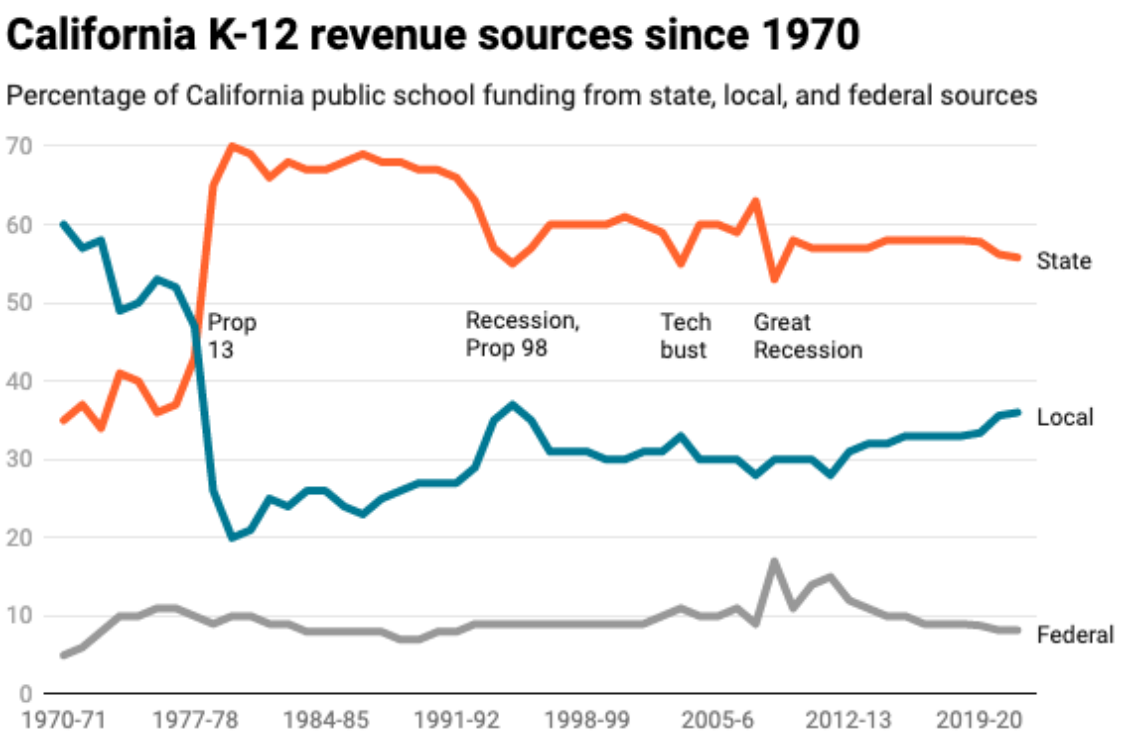
[34] "Proposition 13: Its Impact on California and Implications - California Budget and Policy ..." California Budget Project, April 1997. https://calbudgetcenter.org/app/uploads/2018/09/Issue-Brief_Proposition-13-Its-Impact-on-California-and-Implications_04.1997.pdf.

[35] Ibid

[36] Ibid

[37] Chapman, Jeffrey I. "Proposition 13: Some Unintended Consequences" Public Policy Institute of California, (1998). https://www.ppic.org/publication/Proposition-13-some-unintended-consequences/



Source: Ed100 Lesson 8.3

By assuming responsibility for funding, Proposition 13 had the effect of centralizing authority over education within the state government. Districts lost control over funding decisions and while they still control the administrative decisions, they no longer had the ability to control the amount of funding received by increasing local property taxes. The state takeover of school funding created a standardized funding system that provided the most basic needs of schools and hardly anything else. California experienced a drop in per-pupil expenditures after Proposition 13 which has gradually increased to around the national average.[38] The improvements in expenditures compared to the nation masks the context needed to show how California is still failing its students. The state might have reached the national average in expenditures per-student, but California falls below the

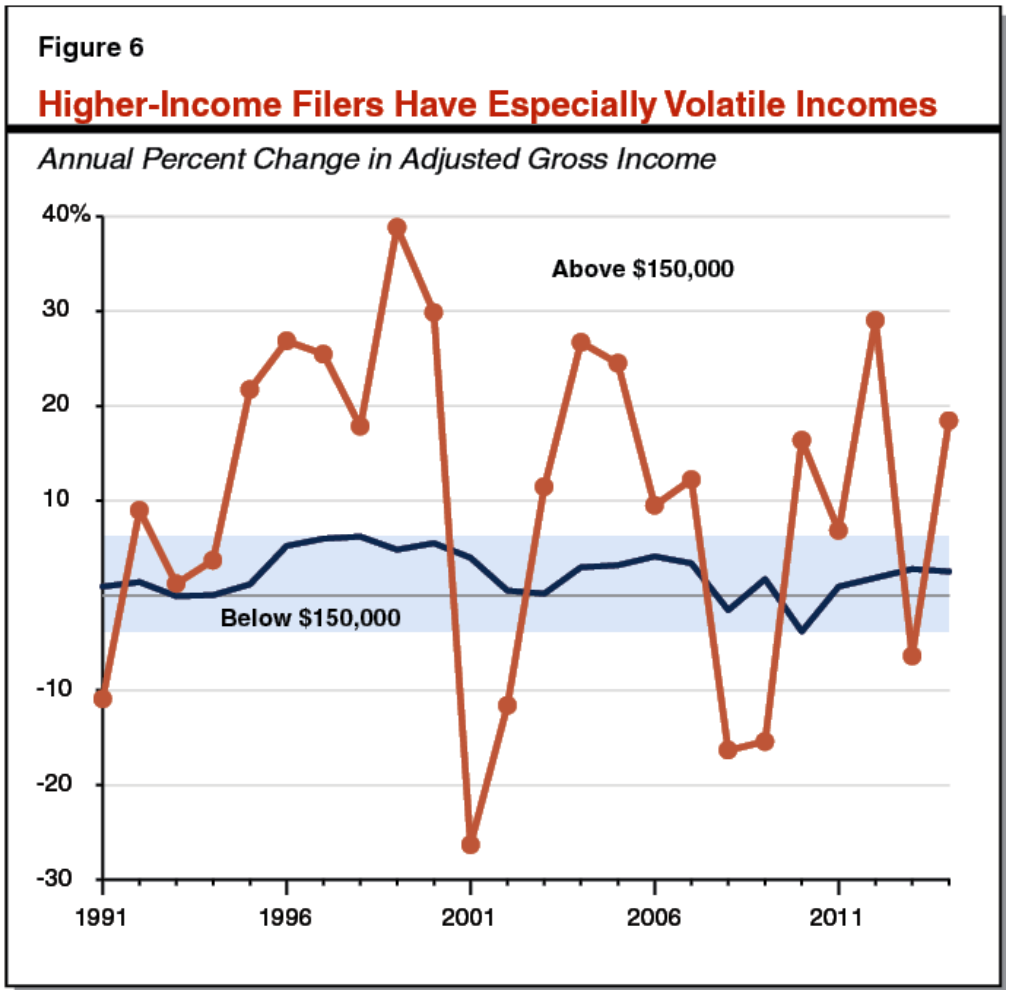
[38] "Spending: Does California Spend Enough on Education?," ED100, September 2022, https://ed100.org/lessons/californiaskimps.

national average in education funding when adjusted for costs of living. Some schools rely more heavily on state funding but local property taxes still account for over 30% of funding. Some California districts are able to fund schools solely through property taxes, which are called basic aid districts, but the majority of these districts enroll fewer students than average. "School districts with more stable revenues and that can more easily raise additional local revenues in the forms of parcel taxes and school bonds tend to be in communities with more property wealth and that are less tax averse."[39] The state's share of education funding is largely sourced from personal income taxes (PIT) which is not a fully stable source of revenue. The top 1% of earners make up nearly half of the state's income taxes, meaning many schools are reliant on the continued tax revenue of 1% of California's population. The volatility of PIT revenues is problematic for the stability of school districts that rely on state funds.[40] Personal income is fairly stable overall as the average deviation (AD) of personal income is 2.6, while the AD of PIT revenue is 12.2, indicating high volatility.[41] Personal income on its own is far less volatile than PIT for a few reasons reasons.

[39] Carrie Hahnel, Arun Ramanathan, Jacopo Bassetto, and Andrea Cerrato. "Unjust Legacy: How Proposition 13 Has Contributed to Intergenerational, Economic, and Racial Inequities in Schools and Communities" (2022) The Opportunity Institute, and Pivot Learning. https://theopportunityinstitute.org/publications-list/2022/8/3/unjust-legacies#:~:text=Unjust%20Legacy%3A%20How%20Proposition%2013,patterns%20and%20discusses%20paths%20forward.

[40] "Who Pays for Schools?: Where California's Public School Funds Come From," ED100, accessed April 30, 2023, https://ed100.org/lessons/whopays.

[41] "Volatility of California's Personal Income Tax Structure," Legislative Analyst's Office, September 28, 2017, https://lao.ca.gov/publications/report/3703.



[42]

Source: Legislative Analyst Office, 2017

One reason why the PIT is so volatile is because California taxes its earners on a graduated rate system, meaning the top earners get taxed the most and the bottom earners have the lowest tax rates. The top earners also tend to have more volatile adjusted gross incomes (AGI) compared to low income filers making their PIT hard to predict each year. The PIT base is also made up of all taxable personal income which includes capital gains, a form of income subject to volatility because the asset value is tied to the stock market. Another reason for top earner volatility is the effect tax

[42] "Volatility of California's Personal Income Tax Structure," Legislative Analyst's Office, September 28, 2017, https://lao.ca.gov/publications/report/3703.

credits and deductions have on PIT volatility. Tax deductions and credits disproportionately benefit lower earners which represent the stable but much smaller portion of PIT revenue, which accentuates the volatility of top earners.[43] Districts with less property wealth and more reliance on the state budget are therefore prone to program or staffing cuts in the event of recessions or a bad economy which affects PIT revenue.

[43] "Volatility of California's Personal Income Tax Structure," Legislative Analyst's Office, September 28, 2017, https://lao.ca.gov/publications/report/3703.

Chapter 2: Then and Now: California School District Funding

2.1 California Education Funding Prior to Proposition 13

Before Proposition 13, California financed schools through a combination model which took into account local property taxes from school districts and a funding formula called the foundation program.[44] The combination program relied heavily upon property taxes which made up 55.7% of public school funding before Proposition 13.[45] The process of local collection began with the county superintendent approving an annual budget. The local government takes the budget and levies taxes on properties within the school district at a rate which meets the district's annual education budget.[46] California's legislature set an absolute minimum financial contribution which is given to every district in the state. The legislature also had a cap on maximum district tax rates, but this could be overridden by a majority of voters in a district. The second part of the combination program is the foundation program which was the formula used for state contributions to schools. Foundation program funds were either designated as basic state aid or equalization aid.[47] Basic aid was an annual flat rate per-pupil expenditure that went to every district, ensuring the minimum total contribution to each district from the state. Equalization aid was based on the minimum financial estimate for each district set by the foundation program which is called the guaranteed amount. The formula for state equalization aid is given by the formula "State aid = [guaranteed amount - (local collection + flat grant)] + flat grant."[48] One issue with the combination plan is the assessed value per

[44] Mockler, John B., and Gerald Hayward. "School Finance In California: Pre-Serrano To The Present." Journal of Education Finance 3, no. 4 (1978): 386–401. http://www.jstor.org/stable/40703153.
[45] Jack E. Perkins, Serrano v. Priest: The End of an Era in Public School Financing, 23 Hastings L.J. 366 (1972). Available at: https://repository.uchastings.edu/hastings_law_journal/vol23/iss2/2
[46] Ibid
[47] Ibid
[48] Coons, John E., William H. Clune, and Stephen D. Sugarman. "Educational Opportunity: A Workable Constitutional Test for State Financial Structures." California Law Review 57, no. 2 (1969): 305–421. https://doi.org/10.2307/3479511.

pupil (AVPP), which was used to calculate the tax contribution of the district and state.[49] The AVPP varied greatly depending on the school district because it was based on a valuation of residential and commercial properties in a given district divided by the number of students enrolled. The variation in AVPP affects the local collection variable in the combination plan formula because districts with a high AVPP may have a local collection amount greater than the guaranteed amount, however they would still receive the flat grant in state aid. The inverse issue of this is that a poor school district essentially does not benefit at all from the inclusion of a flat grant/basic aid. By having (local collection + flat grant) subtracted from the guaranteed amount, the effect of basic aid is nullified for school districts with local collections equal to the flat grant. The basic aid therefore functioned as an anti-equalizing formula that provided subsidies to wealthier school districts. The wealth disparity between counties was magnified when it came to school districts during this time, as wealthier districts benefited from basic aid while poorer districts were barely able to hit minimum funding requirements. "The value of taxable real estate ranges from $103 per school child in the poorest district to $952,156 per child in the wealthiest-a ratio of almost 1 to 10,000!"[50] The combination plan can also be referred to as the tax rate system because of how reliant it was on property taxes for funding. Students in wealthy districts had access to far more resources than students in poorer districts.

2.2 Funding and Authority of Public Schools in California Today

Federal, state, and local governments are the three sources of authority over funding for public schools. The federal budget contributes to less than ten percent of public school funding but enacted a few important policies establishing their role in state education. In 2002 congress passed

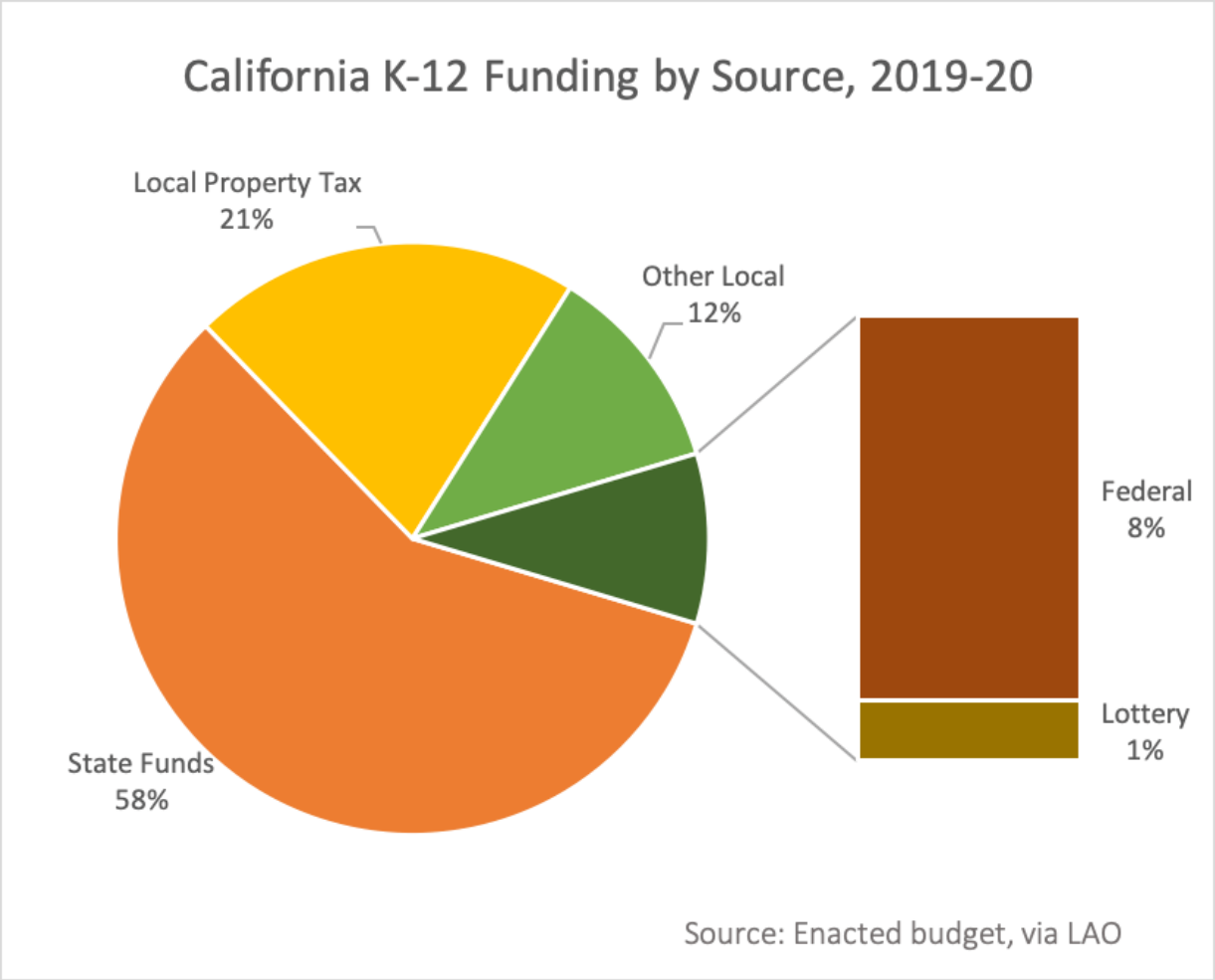
[49] Coons, John E., William H. Clune, and Stephen D. Sugarman. "Educational Opportunity: A Workable Constitutional Test for State Financial Structures." California Law Review 57, no. 2 (1969): 305–421. https://doi.org/10.2307/3479511.
[50] Jack E. Perkins, Serrano v. Priest: The End of an Era in Public School Financing, 23 Hastings L.J. 368 (1972). Available at: https://repository.uchastings.edu/hastings_law_journal/vol23/iss2/2

the No Child Left Behind Act (NCLB) which aimed to increase achievement standards in English and Math. Federal funding for states was dependent on standardized testing results with a goal of reaching statewide proficiency in standardized tests. Especially in a state with high levels of English Learners (EL) and high rates of immigration, reaching statewide English and math proficiency levels on these tests was nearly impossible. NCLB eventually lost bipartisan support and expired in 2007.[51] The Annual Yearly Progress targets established by NCLB remained a part of federal financial incentives to get states to build up their education systems, but most parts of the act died out. NCLB was eventually replaced in 2015 by the Every Student Succeeds Act (ESSA) which was a bipartisan act that reduced federal funding and put more pressure on states to lift up the lowest performing schools.[52] ESSA kept targets for low performing schools, assessments for elementary and high school students, and improvements in quality of school staff which were all goals found in NCLB. The decrease of the federal role put pressure on states to improve their worst performing schools but also gave them more flexibility in how they plan to improve those schools. In the 2019-20 school year, federal funding accounted for 8 percent of K-12 funding, and has consistently hovered around that 10% contribution.

The state plays the largest role in funding public schools and is the primary authority on any education related issues. California's State Board of Education is the governing body of the Department of Education and oversees everything related to education such as regulations, academic standards, funding allocations, and standardized testing.[53] The California Department of Education (CDE) is led by the Superintendent of Public Instruction (SPI), an executive position voted in by citizens. Compared to other states, California has proportionally smaller state education

[51] "The Feds: Power to Provoke Change in Education," ED100, 2019, https://ed100.org/lessons/federal.
[52] Ibid
[53] "SBE Responsibilities," SBE Responsibilities - Members & Staff (CA Dept of Education), September 2022, https://www.cde.ca.gov/be/ms/po/index.asp.

departments based on the number of state education staff members per student.[54] The general role of the CDE is to oversee compliance with federal and state education laws, and collect data on the school system. As stated before, funding for schools before Proposition 13 were primarily collected through local property taxes. Today the funding sources for public schools are a mix of State funds, local collections, and federal funds.



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[54] "The State: The Buck Stops Here," ED100, accessed April 30, 2023, https://ed100.org/lessons/state.
[55] "Who Pays for Schools?: Where California's Public School Funds Come From," ED100, accessed April, 2023, https://ed100.org/lessons/whopays.

According to the Legislative Analyst Office, the majority of funding for public schools now comes from state funds which are mostly a mix of different tax revenues. The personal income tax (PIT) replaced local property taxes as the primary source of state revenue. However, determining the exact sources of school funding is difficult, as the General Fund is composed of several different tax and non-tax revenues which are compiled and then allocated to different services. California's tax system is primarily driven by the PIT, corporation tax (CT), and sales and use taxes (SUT). State income taxes are broken down into nine tax brackets with increasing taxes in higher incomes. The lowest rate is a 1 percent tax on single taxpayers with an income from $0-8,809, and the highest rate is 13.30 percent for individuals making $1,000,000 or more.[56] Another source of state general revenue is the corporation tax (CT). Corporation tax revenue varies each year, but the corporate tax rate has seen a decrease since 1980. California provided several tax breaks and reductions in tax rate for corporations which reduced the estimated available corporate tax revenue. Two of the largest corporate tax breaks in recent years were the Water's Edge Election, and the Research and Development (R&D) tax credit. The Water's Edge Election allows multinational corporations doing business in California to elect whether they want to report income earned worldwide or income earned within California.[57] This allows corporations to not report income earned outside of California and reduces the amount of taxable income. The R&D tax credit provides tax breaks for corporations based on qualifying business expenses related to the improvement or development of new products, processes, and softwares among other activities.[58] The R&D tax credit and Water's Edge Election "account for $6.1 billion of the $7.8 billion the state is projected to spend on

[56] Allie Freeland, "California Tax Rates," H&R Block, January 21, 2021, https://www.hrblock.com/tax-center/filing/states/california-tax-rates/.
[57] "How California Taxes Business Income within the Water's Edge - Caltax," California Tax Foundation, accessed April 30, 2023, https://www.caltax.org/foundation/reports/Waters-Edge-Factsheet.pdf.
[58] "Research & Development Tax Credit Guide for Cpas," ADP, February 18, 2022, https://www.adp.com/resources/articles-and-insights/articles/r/r-and-d-tax-credit-guide-for-cpas.aspx.

corporate tax expenditures in 2021-22"[59] based on findings from Jonathan Kaplan for the California Budget & Policy Center. In addition to corporate tax breaks, the legislature reduced the corporate tax rate twice in the span of a decade. The first cut was from 9.6% to 9.3% in 1987, and the second was from 9.3% to 8.84% in 1997.[60] California would have received around $14 billion in corporate tax revenue if the 1987 tax rate was applied in 2019 according to Kaplan.

Figure 2

General Fund Revenue Estimates

(Dollars in Millions)

	Revised		Enacted	Change From 2021-22	
	2020-21	2021-22	2022-23	Amount	Percent
Personal income tax	$128,856	$136,497	$137,506	$1,008	1%
Sales and use tax	29,073	32,750	33,992	1,242	4
Corporation tax	22,591	46,395	38,464	-7,932	-17
Totals, Major Revenue Sources	**$180,519**	**$215,642**	**$209,961**	**-$5,681**	**-3%**
Insurance tax	$3,139	$3,468	$3,667	$199	6%
Other revenues	3,152	3,771	9,421	5,650	150
Transfer to/from Budget Stabilization Account	2,707	-5,677	-2,968	2,709	-48
Other transfers and loans	5,057	9,856	-375	-10,231	-104
Totals, Revenues and Transfers	**$194,575**	**$227,061**	**$219,707**	**-$7,354**	**-3%**

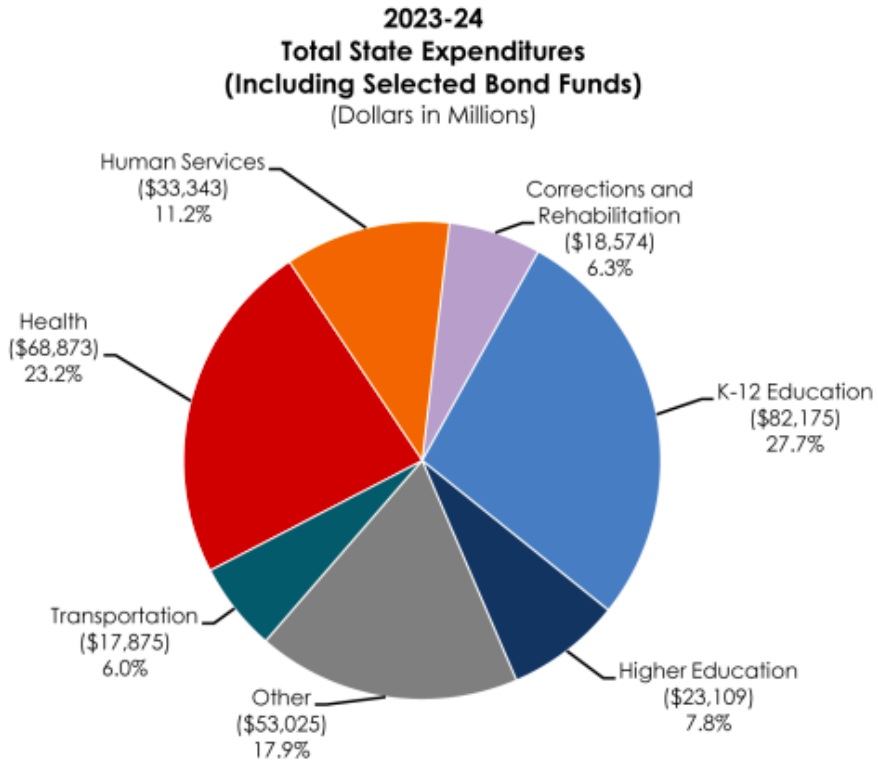
Note: Reflects administration estimates of budget actions taken through July 1, 2022.

Source: Legislative Analyst Office, 2022

The three major revenue sources shown above account for about 95% of the total revenue sources of the state fund. There is a notable increase and subsequent drop in corporate tax revenue which inflated 2021-22 corporate tax revenues but shows a return to normal levels in 2022-23. Between the PIT, SUT, and CT funds are the majority of General Fund revenue which makes them

[59] Jonathan Kaplan, "Corporations Pay Far Less of Their California Income in State Taxes ...," California Budget & Policy Center, April 2022, https://calbudgetcenter.org/app/uploads/2022/03/FS-Draft-Corporate-Taxes.pdf.
[60] Jonathan Kaplan, "Corporations Pay Far Less of Their California Income in State Taxes ...," California Budget & Policy Center, April 2022, https://calbudgetcenter.org/app/uploads/2022/03/FS-Draft-Corporate-Taxes.pdf.

the largest source of revenue for school districts. Education is one of the primary expenditures for California but per-pupil expenditures remain around the national average.



[61]

Source: Governor's Budget Summary, 2023

Nearly a third of the budget is allocated to K-12 education, and an additional 7.8% goes to higher education. The amount contributed to education looks like a substantial portion, but considering the number of students and staff in the education system, there is a case for increasing the education budget. A small but important portion of the state education funding comes from the California lottery which makes up one percent of the education budget or $1.4 billion in 2019-20. The State Lottery was created in 1984, and markets itself as a contributing factor to state education.

[61] California Department of Finance, "Governor's Budget Summary, 2022-2023" January 10, 2022, https://ebudget.ca.gov/2022-23/pdf/BudgetSummary/FullBudgetSummary.pdf

About 20% of the lottery fund goes to education with the majority of money going to prizes.[62] As far as administration is concerned, states play a limited role in decision making at the district and site level. However, ultimate responsibility for education in California falls on the state. Administration over the schools themselves are the responsibility of districts, but in the event of district mismanaging funds or administration, the state may take over district administration.[63] A state takeover is essentially the only instance when the state will exhibit district level control.

PIT, SUT, and CT are the primary contributors to the state portion of education funding, but local property taxes still make up a sizable 21% of the funding. The dramatic change in funding responsibilities decreased the need for districts to provide funding, but districts generally retained control over financial decisions. District funding and administration is complex as not all districts are unified school districts. Unified school districts have elementary, middle, and high schools but 75 California school districts only have high schools. The rest are elementary districts which offer K-8th grade.[64] Each district collects local property taxes and controls the allocated state funds. Districts operate as Local Education Agencies (LEA) and work with county offices of education to structure the education system. School districts are responsible for budget, staffing, and policy implementation.[65] School districts operate independently from the mayor and city officials who have minimal involvement in education decisions. The governing body of school districts is the school board which is composed of elected officials. In some districts the mayor contributes to education by appointing members to the school board, but this is generally in large cities or in the event of a school board member recall. California's school districts vary greatly in size, and prior to 2018 these districts elected school board members to represent the district at large. An issue of equitable

[62] "Who Pays for Schools?: Where California's Public School Funds Come From," ED100, accessed April, 2023, https://ed100.org/lessons/whopays.
[63]"School Districts: In Charge of Most Local Schools," ED100, July 2022, https://ed100.org/lessons/districts.
[64] Ibid
[65] Ibid

representation became an issue in larger school districts as people believed that elected school board members were not representative of the diversity among large districts. In 2018 a lawsuit regarding the California Voting Rights Act set the precedent for better representation by creating trustee areas which are subdivisions of a district.[66] Trustee areas are smaller voting districts which elect a representative from their trustee area to represent them on the school board. School boards control the funding over the schools in the district, but individual schools have control over administration and some site-level decisions. How centralized a district is varies by district but depends on school board decisions to give authority to schools for decision-making.[67] Site-level control is normally limited, but occasionally schools are given the authority to make small financial and hiring decisions.

Private funding plays a small but growing role in public school funding. Public school foundations, not to be confused with the foundation program, are private funding initiatives organized by public school parents. The California foundations are best explained by Michael W. Kirst in his study for the Stanford Institute for Research on Education Policy and Practice in 2006, *Evolution of California State School Finance with Implications from Other States:*

> After Prop. 13, some California parents concluded they should use private money to help finance local schools. California foundations sprouted all over the state, but particularly in high income suburbs. Public school foundations have grown steadily since the early 1980s (foundations raised more than $70 million in 2004). Now California has nearly 600 local school foundations, by far the most in the nation. Some of these foundations encompass school districts, countries, and school sites. They contribute money, in kind services, and volunteers as well as community involvement.[68]

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[66] "School Districts: In Charge of Most Local Schools," ED100, July 2022, https://ed100.org/lessons/districts.
[67] Ibid
[68] Kirst, W., Goertz, M., & Odden, A. "The Evolution of California's State School Finance System and Implications from Other States" Page 7, Getting Down to Facts, 2007, https://cepa.stanford.edu/content/evolution-california%E2%80%99s-state-school-finance-system-and-implications-other-states

The influx of private capital is an important consideration as a factor contributing to inequity in public school funding but it contributes to the actual infrastructure rather than the per-pupil funding. The private contributions allows wealthier schools to upgrade equipment and impact community involvement, but does not directly impact the per-pupil funding.

2.3 Financial Mechanisms of Education

The Local Control Funding Formula (LCFF) is used to decide how funds are allocated to each district. The driving principle of the LCFF is to allocate school district funds based on student characteristics and need, and this process eliminates public funding inequities. Proposition 13 had the effect of centralizing funding responsibilities for schools, and school districts had a relatively uniform response to changes in funding. The switch to majority state funding forced schools to cut expendable programs and conform to a state model of education, except in instances where school districts had alternative revenue sources. The LCFF replaced the revenue limit funding system which took into account a specific revenue limit for the district multiplied by the average daily attendance (ADA) to determine the minimum funding requirement. This system funded districts through revenue limits and categorical programs. The revenue limit funds provided non-specified funds for school districts and the categorical programs provided restricted funding for specific district programs.[69] The categorical programs bound the state funds to certain uses only. Following the Great Recession in 2008, tax revenues shrunk and the legislature temporarily abandoned categorical programs to provide districts with budgets for necessary expenditures. This process of providing non-specific funds to districts eventually evolved into the current LCFF system. The LCFF first went into effect in 2013 with the aim of decentralizing the state-led program and investing more

[69] Margaret Weston, "Funding California Schools - Public Policy Institute of California," Public Policy Institute of California, March 2010, https://www.ppic.org/wp-content/uploads/content/pubs/report/R_310MWR.pdf.

power into the districts. The LCFF provides better equity in funding compared to the pre-Proposition 13 system and the state funding system from 1978-2013. The LCFF accounts for student needs by providing more funding to districts with larger quantities of high-need students.[70] High-need students in California are categorized as low-income, English learner, or foster youth. The LCFF has three funding levels: base, supplemental, and concentration funding. All districts receive base grant funding per student, with higher base grant funding for high school students. Districts receive a supplemental 20% more funding per high need student. Concentration funding is granted to districts with a student population made up of 55% or more high needs students. Concentration grants are applied based on the number of high need students beyond the 55% mark. As of 2022-23 concentration funding was raised from 50% to 65% of the base grant.[71] For a district that is 65% high need students, it would receive 165% of the base grant for 10% of its students. The LCFF also reintroduced district control over funding with minimal constraints on how funding is used. The additional funding high-need districts receive are intended to be used on resources for high need students but the state rarely interferes with the financial decisions of districts. Districts can spend supplemental and concentration funds as they see fit as long as spending decisions follow the intent of the law. The LCFF funds nearly all districts with the exception of Basic-aid districts which receive no LCFF funding. Basic-aid or Excess Tax districts local collections revenue exceeds the guaranteed LCFF level which results in no LCFF funding for those districts.[72]

Under the LCFF, local control over funding returned which made districts accountable for almost all financial decisions. The LCFF alone does not provide many mechanisms for holding

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[70] Julien Lafortune, "Understanding the Effects of School Funding," Public Policy Institute of California (Public Policy Institute of California, May 24, 2022), https://www.ppic.org/publication/understanding-the-effects-of-school-funding/#:~:text=They%20find%20that%20a%2010,lower%20incidence%20of%20adult%20poverty.

[71] "8.5 LCFF: The Formula That Controls Most School Funding." ED100, September 2022. https://ed100.org/lessons/lcff.

[72] Ibid

districts accountable for funding decisions, outside of emergency circumstances or a failing district in which case a state takeover would be necessary. However, the LCFF was accompanied by the Local Control and Accountability Plan (LCAP) in 2014 which is a three year plan addressing state and local priorities for each district.[73] All LEA's are required to have and annually update their LCAP. The LCAP is a public document where districts report their goals and plans regarding priorities. The state provides an LCAP template which districts use to build out their annual plans in addressing priority items.

California's 8 State Priorities	
1	*Student access to basic school services:* fully credentialed teachers, instructional materials that align with state standards, and safe facilities.
2	*Implementation of academic standards* adopted by the State Board of Education (e.g. Common Core State Standards in English language arts and math, Next Generation Science Standards, English language development), including how programs and services will enable English learners to access the Common Core standards.
3	***Parent involvement and participation***, so the local community is engaged in the decision-making process at the district and school sites, including promoting parent participation in programs for high need students. [emphasis added]
4	*Student achievement and outcomes* along multiple measures, including test scores, English proficiency, and college- and career-readiness.
5	*Student engagement*, including whether students attend school or are chronically absent, and whether they graduate or drop out.
6	*School climate* and connectedness as measured by suspension and expulsion rates and other locally identified means.
7	*Pupil access to and enrollment in a broad course of study*, including all core subject areas (i.e. English, mathematics, social science, science, visual and performing arts, health, physical education, career and technical education, etc.).
8	*Other student outcomes*, if available, in the subject areas that make up the broad course of study.

[74]

Source: The LCAP: Annual Plans for School Districts, Ed100, April 2021

[73] "LCFF Frequently Asked Questions," LCFF Frequently Asked Questions - Local Control Funding Formula (CA Dept of Education), April 2023, https://www.cde.ca.gov/fg/aa/lc/lcfffaq.asp.
[74] "The LCAP: Annual Plans for School Districts," ED100, April 2021, https://ed100.org/lessons/local#tag12.

The LCAP is first subject to public comment before going to the school board and county office of education for approval. This provides some degree of transparency and accountability for how LCFF funds are handled. The degree of detail in the LCAP and what information is disclosed to the public depends on the district and civic engagement from school parents. School district LCAPs must be reviewed by a parent committee, and a second parent committee if English learners make up 15% of students. Constitutional responsibility over education still falls on the state, but the LCFF system follows the principle of subsidiarity, which allows a degree of independence for districts from state authority over education.[75] The official LCAP is approved at the same time as district budgets and is intended to provide citizens with a sense of how district budgets are allocated.

Local collections form a smaller percentage of school funds on average, but there is a lot of variation in the amount of funding from local collections between districts. Minimum guarantees for education funding stem from Proposition 98 which passed in 1988. The minimum funding levels for schools are fulfilled by local property tax revenues, and the state general fund finances the remaining part. Schools receive about 40% of all property tax revenues while counties, cities, and special districts split the rest.[76] By the early 1990's the burden of the state's financial obligations to the education system and an economic recession began to sink the state budget. The state responded by permanently moving almost 20% of statewide property tax revenue from counties, cities, and special districts to education. The redirected local funds were deposited to educational revenue augmentation funds (ERAFs) in the county treasury.[77] ERAFs were used to offset effects of budget shortfalls in the General Fund from the recession. Some counties received enough ERAF funding to cover the guaranteed Proposition 98 minimum funding in which case the Excess ERAF was allocated back to the non educational local agencies and governments in proportion to the original

[75] "The LCAP: Annual Plans for School Districts," ED100, April 2021, https://ed100.org/lessons/local#tag12.
[76] Gabriel Petek, "Excess ERAF: A Review of the Calculations Affecting School Funding," Legislative Analyst's Office, March 2020, https://lao.ca.gov/reports/2020/4193/excess-ERAF-030620.pdf.
[77] Ibid

ERAF property tax revenue that agency contributed. Excess ERAF reporting has grown substantially in the last decade, leading to five bay area counties reporting Excess ERAF funds with the most recent being San Francisco in 2016-17. ERAF property tax funding is a contentious system, as it takes a considerable amount of money away from other local governments and agencies to fund schools and is now fully funding Proposition 98 guaranteed funding in some districts. The state has quietly reduced its role in funding, leaving school districts and local agencies competing over property tax funds.

Chapter 3: Policies Addressing Education Funding Equity

3.1 Serrano I & II (1971, 1976)

Serrano v. Priest I (1971) was a California Supreme Court case between several Los Angeles based students and their parents against state and local officials in charge of supplying revenue for schools. Serrano v Priest I preceded Proposition 13 and was a landmark decision for equalizing education. John Serrano and the plaintiffs were seeking three particular outcomes.

> "(1) a declaration that the financing system for California public schools violated the equal protection clause of the Fourteenth Amendment and the fundamental law and Constitution of California; (2) an order directing the defendants to reorganize the financing plan so as not to violate the constitutions of California and the United States; and (3) a ruling that the court would retain jurisdiction of the case in order to revise the system should the defendants and the legislature fail to do so within a reasonable time."[78]

As noted in section 2.1, California's combination plan for education funding produced incredible disparities in school district funding and subsidized wealthy school districts. The local property tax component of the funding system allowed school districts to levy taxes on properties within the district at rates sufficient for providing funds to the annual education budget, but districts with lower property value received far less money from local collections.

[78] Jack E. Perkins, Serrano v. Priest: The End of an Era in Public School Financing, 23 Hastings L.J. 365 (1972). Available at: https://repository.uchastings.edu/hastings_law_journal/vol23/iss2/2

	Low	High
Assessed value/ADA[1]	$ 75.00	$1,053,000.00
Tax rate[2]	00.39	7.83
Expenditure/ADA	420.00	3,447.00

[79]

Source: Mockler & Hayward, 1978

The example above displays an extreme difference between the assessed property value in two districts and how it translates to the expenditures per average daily attendance for schools. Serrano v. Priest ruled that California's public school financing system violated the equal protection clause of the U.S. Constitution and the California Constitution.[80] The court determined that "Recognizing as we must that the right to an education in our public schools is a fundamental interest which cannot be conditioned on wealth, we can discern no compelling state purpose necessitating the present method of financing. We have concluded, therefore, that such a system cannot withstand constitutional challenge and must fall before the equal protection clause."[81] The court ordering a reorganization of the financing system was a win, but presented many challenges for how to execute it. There was confusion over who should benefit from the reorganization and how they would benefit from it. The implication in the case was that low income students lived in low assessed property value districts, and the way to change the system was to move away from property taxes as a funding source.[82] This proved to be false as the majority of low income students generally lived in big urban districts with average assessed values. By 1972 the state began changes in school financing with SB 90, which raised foundation program guaranteed funds per ADA and

[79] Mockler, John B., and Gerald Hayward. "School Finance In California: Pre-Serrano To The Present." Journal of Education Finance 3, no. 4 (1978): 386–401. http://www.jstor.org/stable/40703153.
[80] Ibid
[81] SCOCAL, Serrano v. Priest , 5 Cal.3d 584 available at: (https://scocal.stanford.edu/opinion/serrano-v-priest-27628).
[82] Mockler, John B., and Gerald Hayward. "School Finance In California: Pre-Serrano To The Present." Journal of Education Finance 3, no. 4 (1978): 386–401. http://www.jstor.org/stable/40703153.

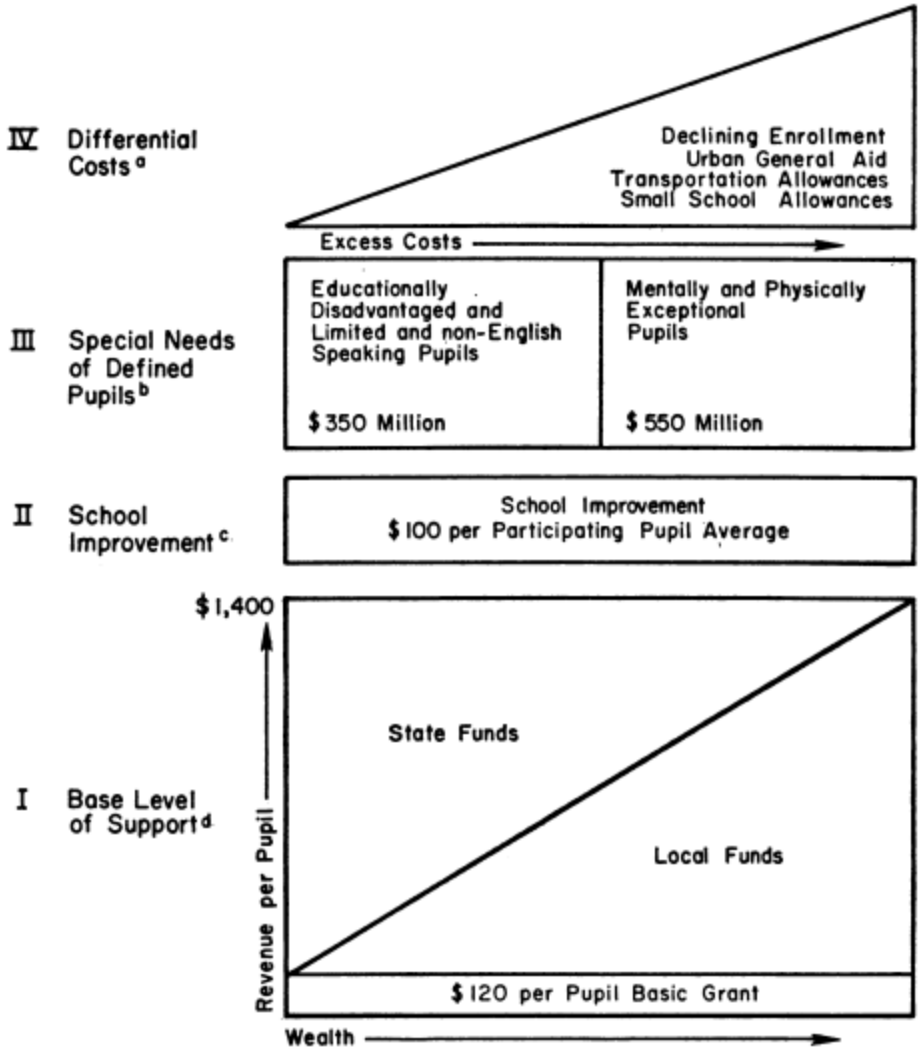
helped low-expenditure districts by infusing a little more state aid. SB 90 established a revenue limit system which addressed inequities created by local government taxes under the tax rate system.[83] "Under the new system, if assessed value grows at a faster rate than the permitted revenue limit adjustment, a tax rate reduction automatically occurs."[84] The revenue limit allowed growth of up to 15% in expenditures per pupil per year until they hit foundation level, and districts with per pupil expenditures higher than the foundation level were limited to 6% growth per pupil per year. SB 90 equalizes school funding by limiting the amount of funding wealthy districts receive from property taxes, and providing tax relief to schools through state reimbursement funds.[85] SB 90 "implemented a sliding scale of increases to revenue limits designed to bring lower-spending districts up to the level of higher-spending ones over time."[86] The reimbursement funds are calculated by a series of formulas that account for ADA and district needs. The revenue limit system was later edited because of loopholes which allowed districts to raise tax limits through voting.

These first Serrano changes focused on tax relief for low assessed value districts and inequality in expenditures per student. The legislature continued editing and changing the finance system over the next few years, but there was no clear solution yet. In 1976, the court reaffirmed the decision in Serrano I. The court acknowledged the progress made since then, but declared that the financing system of schools remained in violation of the equal protection clause. The results of Serrano II were expected by the government, and they continued working on different models of school financing. Eventually Governor Brown proposed AB 65 which focused on reduction of tax rate disparity and categorical aid increases. Senator Albert Rodda introduced a competing measure which focused on reducing expenditure variations. The governor's proposal was essentially an

[83] State of California, CSM history, 2020, https://csm.ca.gov/history.php.
[84] Mockler, John B., and Gerald Hayward. "School Finance In California: Pre-Serrano To The Present." Journal of Education Finance 3, no. 4 (1978): 386–401. http://www.jstor.org/stable/40703153.
[85] State of California, CSM history, 2020, https://csm.ca.gov/history.php.
[86] "Local Revenues for Schools: Limits and Options in California - Edsource," Edsource, September 2009, https://edsource.org/wp-content/publications/pub_LocalRevenues_2009-09.pdf.

education reform bill while Rodda's was centered on increasing state general support. This resulted in a merging of the two bills, the reform parts of the governor's bill and the state general support measures from Rodda's bill were included in the new AB 65 which met the compliance standards of the Serrano decisions.[87]

[87] Mockler, John B., and Gerald Hayward. "School Finance In California: Pre-Serrano To The Present." Journal of Education Finance 3, no. 4 (1978): 386–401. http://www.jstor.org/stable/40703153.



a. Recognized excess costs by state law.
b. Includes both state and federal funds for such purposes.
c. AB 65 guaranteed funding for 50% K-6 pupils and 12% 7-12 pupils. Rates ($150 K-3, $100 4-8, $65 7-12)
d. Average base revenue limit is estimated to be $1,400 per ADA in 1978-79. This exceeds the foundation program.

FIGURE 1
CALIFORNIA SCHOOL FINANCE AFTER AB 65

88

Source: Mockler & Hayward, 1978

[88] Mockler, John B., and Gerald Hayward. "School Finance In California: Pre-Serrano To The Present." Journal of Education Finance 3, no. 4 (1978): 386–401. http://www.jstor.org/stable/40703153.

The graphic above shows how California financed its schools following AB 65. It was a four tier system which was an incredibly complex bill that merged the amended combination plan with educational incentives, special needs funding, and differential costs that vary by district. AB 65 was comprehensive, detailed, and addressed several issues of equity in public school funding. Plaintiffs in the Serrano case argued that the bill still allowed some of the former features which caused inequity, such as the ability for a district to override tax limits and use more revenue.[89] In general, AB 65 provided a much needed overhaul of the education system and "provides additional state assistance to increase per pupil expenditures in low-wealth districts and imposes new limits on the growth of expenditures in districts with high per pupil property values"[90] and AB 65 "made further changes in the system using a power equalization plan that would redistribute state aid based on differences in district property tax revenues per pupil."[91] The bill also establishes the School Improvement Program designed to increase the quality of public education primarily through state planning and implementation grants to participating schools. One section of AB 65 modifies the legislature's proficiency standards in basic skills for students in grades 7-12 and extends these requirements to specified elementary grades"[92] The result of Serrano I and II was a complete restructuring of the education system, which was a little messy but had some of the necessary funding measures to create equity.

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[89] Mockler, John B., and Gerald Hayward. "School Finance In California: Pre-Serrano To The Present." Journal of Education Finance 3, no. 4 (1978): 386–401. http://www.jstor.org/stable/40703153.

[90] John Chaffee, "California Schools beyond Serrano: A Report on Assembly Bill 65 of 1977.," ERIC (Publications Sales, State Department of Education, P.O. Box 271, Sacramento, California 95802 ($0.85; public agencies in California may send purchase orders; all others should include payment with order), November 30, 1978), https://eric.ed.gov/?id=ED169669.

[91] "Local Revenues for Schools: Limits and Options in California - Edsource," Edsource, September 2009, https://edsource.org/wp-content/publications/pub_LocalRevenues_2009-09.pdf.

[92] John Chaffee, "California Schools beyond Serrano: A Report on Assembly Bill 65 of 1977.," ERIC (Publications Sales, State Department of Education, P.O. Box 271, Sacramento, California 95802 ($0.85; public agencies in California may send purchase orders; all others should include payment with order), November 30, 1978), https://eric.ed.gov/?id=ED169669.

3.2 Senate Bill 154 & Assembly Bill 8 (1979)

The very first response to Proposition 13 was the passing of Senate Bill 154 only weeks after Proposition 13 passed. SB 154 established the first allocation system of property taxes to all local governments. SB 154 distributed property taxes collected at a one percent rate to counties, cities, special districts, and schools based on the share of property taxes each one received before Proposition 13.[93] SB 154 also provided bail out block grants to cities and counties and relieved health and welfare obligations for counties. This was a short-term relief strategy that was replaced a year later by AB 8, the long term allocation property tax allocation policy. AB 8 replaced the bail out block grants from SB 154 with a permanent solution. The allocation system under AB increased the share of property taxes received by counties, cities, and special districts by reducing the share of property taxes received by schools. "Specifically, cities received increased property taxes equivalent to 82.91 percent and special districts 95.24 percent of their SB 154 block grant amount. Under the provisions of AB 8, counties received a combination of increased property taxes, reduced expenditure obligations, and a state block grant for indigent health programs."[94] Schools received less property tax funds but were supplemented by increased state funding. These shifts relieved county obligations and allowed other local governments to collect a higher share of property taxes. School districts began relying heavily on state funding before eventually moving back some of the property taxes collected by counties, cities, and special districts through ERAF.

3.3 Proposition 98 (1988)

A decade after Proposition 13 passed, public schools were hindered by increasing class sizes and shrinking resources and budgets. State funds for schools were only enough to keep schools

[93] Legislative Analyst's Office, "Property Taxes: Why Some Local Governments Get More than Others," Property Taxes: Why Some Local Governments Get More Than Others, August 1996, https://lao.ca.gov/1996/082196_prop_taxes/property_tax_differences_pb82196.html.
[94] Ibid

afloat, and the state was not prioritizing education beyond minimum funding. Voters passed Proposition 98 in 1988 to make the state meet the needs of school districts. The voting margin for Proposition 98 was incredibly narrow as 51.03% voted yes.[95] Proposition 111 (1990) was an additional measure of Proposition 98 which also passed by a narrow margin of 52%. Unlike other measures to raise school district funds, Proposition 98 doesn't target local or state taxes. Instead, Proposition 98 amended the California constitution to require a larger fraction of the state General Fund revenues to be dedicated to K-12 education.[96] There are three tests used to decide the minimum annual guarantee of Proposition 98: Percentage of General Fund Revenues (Test 1), Adjustment Based on Statewide Personal Income (Test 2), and Adjustment Based on Available Revenue (Test 3).[97] Test 1 guarantees a minimum allocation of about 40% of the state General Fund revenues to K-14 education funding, when Test 1 revenue is higher than the other two tests. Test 2 requires state aid + local property tax revenue to match the allocation of the previous year adjusted for ADA and personal income per capita, when the percentage of General Fund revenue growth per capita exceeds the percentage of personal income per capita by more than 0.5%. Test 3 requires that state aid + local property tax revenue matches the previous year adjusted for ADA and General Fund revenue plus 0.5% of Proposition 98 spending in the previous year, when the percentage of personal income per capita growth is higher than the percentage of General Fund Revenue growth per capita by more than 0.5%. Test 3 was an addition to Proposition 98 that was passed two years after by Proposition 111 (1990).[98] Tests 2 and 3 account for inflation factors to keep Proposition 98 funds from burdening the budget or being underfunded during periods of economic fluctuation. An

[95] "California Proposition 98, Mandatory Education Spending Initiative (1988)," Ballotpedia, accessed April, 2023, https://ballotpedia.org/California_Proposition_98,_Mandatory_Education_Spending_Initiative_(1988).
[96] "Prop 13 and Prop 98: Initiatives That Shaped California's Education System," ED100, October 2022, https://ed100.org/lessons/prop13#prop98.
[97] "Proposition 98 Sets a Minimum Funding Guarantee for Education - Edsource," Proposition 98 Sets a Minimum Funding Guarantee for Education, March 2009, https://edsource.org/wp-content/publications/PolicyBriefR3.pdf.
[98] Timar, Thomas. "How California Funds K-12 Education." University of California, Davis, September 2006. https://cepa.stanford.edu/sites/default/files/2-Timar(3-07).pdf.

additional provision of Proposition 13 is triggered when state tax revenues surpass the Gann Limit. The Gann Limit established a cap on the state and local government's ability to spend excess tax revenue.[99] When this happens, half of the excess tax revenue is allocated to K-14 education and half is rebated to taxpayers.[100]

There is a mechanism to account for funding gaps created by Test 3 or suspension of Proposition 98 funding, called the Maintenance Factor.[101] The Maintenance Factor accelerates funding of Proposition 98 in future years to compensate for a funding gap. Proposition 98 is the current backbone for education funding policy and structure, and numerous attempts to remove or restructure it have failed. Proposition 98 is a great measure of constitutional accountability for education funding through the state and local property taxes, and contains the necessary mechanisms to adjust for economic conditions and other government priorities which makes it difficult to overhaul. Proposition 98 is even bolstered by Proposition 2 (2014) which delegates a portion of Proposition 98 funding to a reserve during strong fiscal years.[102] The Proposition 2 reserve is only used during economic downturns and provides a fund within Proposition 98 to meet educational needs instead of relying on alternative state or local funds.

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[99] Virignia L Alvarez, "School Funding in California and The Uniqueness and Vulnerability of Basic Aid Funding," Reed Schools, May 2009, https://www.reedschools.org/cms/lib2/CA01001640/Centricity/Domain/201/School%20Funding%20in%20CA%20%20Basic%20Aid%20Funding--V%20%20Alvarez.pdf.

[100] Ibid

[101] Timar, Thoman. "How California Funds K-12 Education." University of California, Davis, September 2006. https://cepa.stanford.edu/sites/default/files/2-Timar(3-07).pdf.

[102] "Proposition 98," The 2022-23 California Spending Plan: Proposition 98, October 24, 2022, https://lao.ca.gov/Publications/Report/4641.

Chapter 4: A Comparative Analysis of California and Other States: Spending and Outcome

A Study by Michael W. Kirst prepared for Stanford Institute for Research on Education Policy and Practice in 2006 critiques the evolution of the California finance system and compares it to other states. In *Evolution of California State School Finance with Implications from Other States,* Kirst provides an overview and analysis of California's school finance system and compares it to school financing in other states. Kirst details the historical importance of financial policies and lawsuits that affect the school financing system to explain why California has such a complex school financing system. Kirst stresses that policy stasis and the seeming inability to change Proposition 13 contributes to the difficulties in revitalizing per-pupil spending. Overall, Kirst views the California school finance system as chaotic and determines that financing complexity is derived from the lasting effects of Proposition 13. The system before Proposition 13 had a stable source of funding which could be directed to the individual needs of school districts, and the switch to a centralized state funding system made it difficult to equitably allocate funding based on the needs of students. Kirst addresses the issue of policy stasis by comparing California to states that enacted major changes to their public school finance system such as New Jersey, Wyoming, Kentucky, and Arkansas.

> But why has such an outcry not led to a substantial overhaul similar to New Jersey, Kentucky, Arkansas, and Wyoming? One major reason is that the last major lawsuit was Serrano in 1969. The Williams case settled in 2004 was limited to establishing a minimum foundation for facilities, books, and teachers. A minimum foundation is one of the oldest concepts in school finance, and something California used in the early 20th Century. The New Jersey, Kentucky, Arkansas, and Wyoming lawsuits led to a focus on pupil achievement, funding

> adequacy, and academic standards. But California's experience with Serrano had left lasting negative memories of court policy control, and a focus on equal local district spending only for the revenue limit base. After Prop. 13 in 1978, California relied on controlling expenditure growth in the high spending districts as a major component to comply with Serrano equalization. In California, equalization is seen as a goal without regard to adequacy or academic standards.[103]

Kirst writes that lack of substantial change is due to policymakers and voters being averse to reconstructing the system, and preferring to make minor changes to the existing system. This is exacerbated by economic booms which creates periods of illusory stability that masks the true volatility of school funding tied to PIT revenue. Kirst explains the advantages and drawbacks of California's school finance system compared to New Jersey, and emphasizes the difference in goals of legislation. The Serrano decisions in California focused on spending equity for state general revenue, while the Abbott decisions from the New Jersey Supreme Court included financial decisions on facility improvement and student success. The most striking difference between New Jersey and California school financing is who benefits most from state aid and under what circumstances they benefit. At the time of publishing this study, the LCFF and LCAP were not yet implemented which addressed many of the equity issues in California described by Kirst.

> New Jersey's state aid is highly targeted. Consequently, poor-non Abbott middle property wealth districts were spending below the state averages, and considerably less than Abbott urban/high-minority districts. By contrast, when there is a significant upturn in the economy, California has typically enhanced suburban expenditures through a categorical fund called "equalization aid," and has invested in "universally" applied programs for all school districts

[103] Kirst, W., Goertz, M., & Odden, A. "The Evolution of California's State School Finance System and Implications from Other States" Page 9, Getting Down to Facts, 2007, https://cepa.stanford.edu/content/evolution-california%E2%80%99s-state-school-finance-system-and-implications-other-states

such as class size reduction. In 2006-2007, an additional $350 million was directed to the revenue limits of lower- spending school districts. In addition, the state created 22 new categorical programs in 2006 with no consistent fiscal equalization objective. New Jersey does not have California's voluminous categorical programs, but does specify that Abbott districts provide an uninterrupted language arts block of 80 to 120 minutes for all students in Grades 4-8, provide special supports for students reading below grade level, and some other specifications. One cautionary implication for California is that New Jersey state finance policies provide significantly less money to the middle of the district distribution compared to the urban Abbott districts, or the high property wealth districts. California's basic aid districts have a similar advantage at the top spending range because they get to keep their own property tax, and not send any property tax revenue for state redistribution. Intense state finance targeting to urban districts in California could result in the same state finance distribution issues as New Jersey-e.g., comparatively low per pupil expenditures in middle spending districts. The 31 Abbott districts get slightly more than half of all the state money given to New Jersey's 616 school districts. New Jersey legislators are considering targeting more state aid to needy children throughout the state rather than just in Abbott districts.

New Jersey, however, has no policy or data linking the level and mix of inputs in its state foundation levels to its Core Curriculum Standards. But the performance gap between students in Abbott and non-Abbott schools did close somewhat on all state tested grades (2001-2005), particularly in the 4th Grade. NAEP scores show significant gap closing for the Abbott districts in 4th grade between the mid 1990's and 2005. The Abbott district state aid increases have been so large that these urban districts now spend more on average than the wealthy districts in the state! Moreover, New Jersey Abbott districts spend nearly twice as

much per pupil as similar California urban districts. Critics contend that for all this new money Abbott district test score gains should be much higher (Evers and Clopton, 2006).[104]

The initial significance of this passage is that New Jersey's Abbott districts benefit the most from state aid and this attempts to address issues of student success by having equitable funding programs. The Abbott districts are most similar to the revenue limit districts in California, which have become the main beneficiaries of the LCFF. The link between per-pupil spending and student success requires time and proper use of funds, but New Jersey stands as an example that equitable per-pupil funding can affect student achievement. California's LCFF and LCAP are comprehensive plans to ensure equitable district funding, but could benefit from financial incentives tied to student success or improvement. California's previous attempt to incentivize achievement was based on the centralized and standardized testing system which made it difficult for districts with higher rates of English learners (EL) and high-needs students to keep up with the rest of the state. California differs from states like New Jersey or Wyoming because of the demographics. Students in California have different needs from students in most other states. Only 7.2% of students in New Jersey classified as EL students in the fall of 2020, compared to the 17.7% in California.[105] The LCFF serves as a corrective response to equity issues outlined by Kirst, and is arguably more comprehensive than the financial system established by the Abbott decisions in New Jersey. Since the LCFF was implemented in 2013, per-pupil revenues have significantly increased. A Getting Down to Facts II Research Brief published in September of 2018 called *Effects of the Local Control Funding Formula on Revenues, Expenditures, and Student Outcomes* shows the effectiveness of the LCFF plan on per-pupil spending and academic achievement rates for high-needs students.

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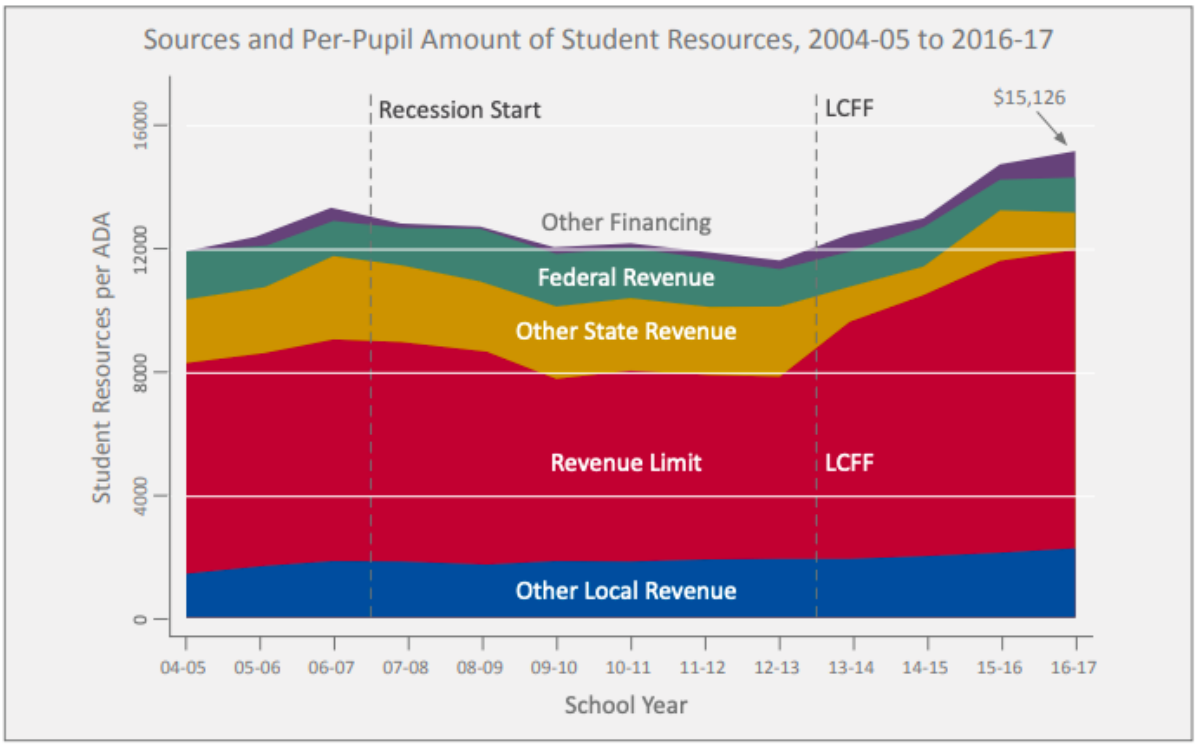
[104] Kirst, W., Goertz, M., & Odden, A. "The Evolution of California's State School Finance System and Implications from Other States" Page 16-18, Getting Down to Facts, 2007, https://cepa.stanford.edu/content/evolution-california%E2%80%99s-state-school-finance-system-and-implications-other-states

[105] National Center for Education Statistics. "English Learners in Public School" May, 2023, U.S. Department of Education, Institute of Education Sciences. https://nces.ed.gov/programs/coe/indicator/cgf.



[106]

Source: California Department of Education, SACS reports.

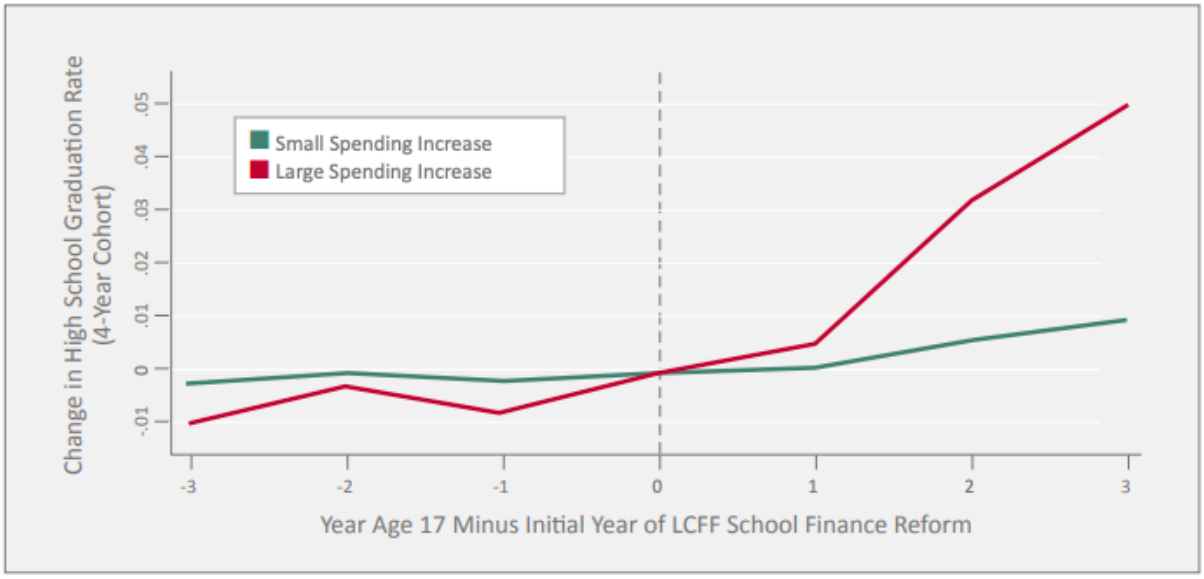
The graph above shows when the LCFF was implemented and the changes in per-pupil funds over time. The revenue limit resources increased significantly following 2013 proving the effectiveness of the LCFF. From the 2012-13 to 2016-17 school year, per-pupil resources increased by $4000 per ADA. The question is whether the increase in per-pupil funding was equitable and if it resulted in improved student outcomes. According to the research brief, district revenue from the state increased across all California districts, but high-poverty districts have received far larger increases in state revenue compared to low-poverty districts. High-poverty districts benefited from an increase of nearly $1500 in per-pupil state revenue while low-poverty districts had an increase of just under $500.[107] The data indicates a clear achievement in equitable funding, but equitable funding

[106] Rucker C. Johnson, Paul Bruno, Sean Tanner, "Effects of the Local Control Funding Formula on Revenues, Expenditures, and Student Outcomes" September, 2018, https://gettingdowntofacts.com/sites/default/files/2018-09/GDTFII_Brief_LCFF_Effects.pdf

[107] Ibid

doesn't always translate to increased student achievement for high-poverty districts or high-needs students.

Figure 3b: Effects of the LCFF Per-Pupil Increase of $1,000 on High School Graduation Rate for Students from Low-Income Families

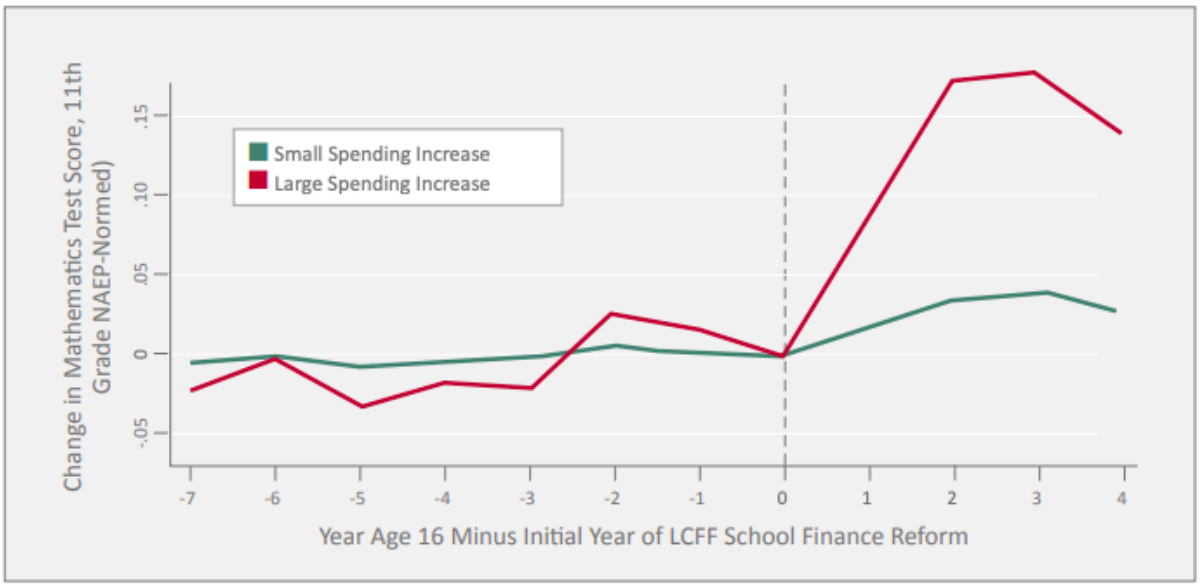


[108]

Source: California Department of Education, SACS reports.

[108] Rucker C. Johnson, Paul Bruno, Sean Tanner, "Effects of the Local Control Funding Formula on Revenues, Expenditures, and Student Outcomes" September, 2018, https://gettingdowntofacts.com/sites/default/files/2018-09/GDTFII_Brief_LCFF_Effects.pdf

Figure 3c: Effects of the LCFF on High School Mathematics Achievement for Students from Low-Income Families



[109]

Source: California Department of Education, SACS reports.

Figure 3b from the GDTFII Research Brief shows an increase in graduation rates among low-income students in the initial years of LCFF. Low-income students in districts with large spending increases saw significant improvements in graduation rate immediately following the introduction of the LCFF and this differed from the nominal increases of low-income students in districts that received small spending increases. The researchers also found that all student subgroups by race and poverty experienced increases, with the most notable increases for African-American students. The data indicates a positive connection between increased LCFF spending and student outcomes. This is supported by similar trends in data collected in figure 3c, which compares math results for low-income 11th grade students in small and large spending

[109] Rucker C. Johnson, Paul Bruno, Sean Tanner, "Effects of the Local Control Funding Formula on Revenues, Expenditures, and Student Outcomes" September, 2018, https://gettingdowntofacts.com/sites/default/files/2018-09/GDTFII_Brief_LCFF_Effects.pdf

districts over time. The LCFF appears to positively affect equity in student achievement and provide more opportunities for students in high-poverty districts.

Prospects for Further Reform

The LCFF is providing equitable district funding and results impacting student achievement, but there are many researchers who still question whether the money dedicated to California public schools is efficiently used and reduces disparities in student opportunity. One of the major difficulties when it comes to research on school financing is determining the effectiveness of each dollar to student outcome. The complexity of California's public school funding process, difficulty in measuring student outcome, and scarcity of substantial research on the topic are all reasons why finding the exact dollar value of additional public school funding has not been done. There is plenty of research showing the importance of additional funding, positive effects for student equity, and the impact of financial reform.[110] The next step is to find efficient and precise ways to tackle existing achievement gaps in student sub-groups. It is known that money can and does help reduce achievement gaps for high-needs students, but determining how to most effectively apply those financial resources should be the next goal. California's public school financing system has undergone numerous changes and reforms in an effort to meet and exceed expectations for the public school system, and the number one educational priority should be to continue finding equitable funding solutions. Research shows that additional funding to public schools under the LCFF has a higher impact on low-income districts and according to a May 2022 PPIC study by Julien Lafortune, "the research shows that $1,000 in additional spending for four years improves test scores by 0.035 standard deviations, and closer to 0.05 for low-income students."[111]

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[110] Julien Lafortune, "Understanding the Effects of School Funding," Public Policy Institute of California (Public Policy Institute of California, May 24, 2022), https://www.ppic.org/publication/understanding-the-effects-of-school-funding/#:~:text=They%20find%20that%20a%2010,lower%20incidence%20of%20adult%20poverty.

[111] Julien Lafortune, "Understanding the Effects of School Funding," Public Policy Institute of California (Public Policy Institute of California, May 24, 2022), https://www.ppic.org/publication/understanding-the-effects-of-school-funding/#:~:text=They%20find%20that%20a%2010,lower%20incidence%20of%20adult%20poverty.

Table 2

Achievement gaps by subgroup, eighth grade ELA

	Low-income	Non-low-income	EL	Non-EL	Asian	Black	Latino	White
Share meeting or exceeding standards	37%	68%	6%	55%	78%	31%	38%	64%
Average test score in standard deviations from the statewide mean	–0.29	0.43	–1.04	0.15	0.70	–0.45	–0.25	0.32
Difference (in SDs): vs Non-low-income	**–0.72**	**0**						
Difference (in SDs): vs Non-EL			**–0.49**	**0**				
Difference (in SDs): vs White					**0.38**	**–0.77**	**–0.58**	**0**

[112]

Source: California Department of Education, SBAC data; authors' calculations.

The data above shows the achievement gap among students in California and based on Lafortune's research, the amount of money needed per-pupil per year to close the achievement gap can be estimated. There are several assumptions in Lafortune's work, and he notes that the figures he produced are purely hypothetical.

> Using these estimates, we can hypothetically extrapolate the amount of funding it would take to close the gap between low- and high-income students. If we assume the effect is linear for spending—that is, it does not diminish or accumulate (a strong assumption)—it would take an additional $10,200 dollars annually for eight years to close the gap for eighth-grade low-income students. If we assume that gains are larger for low-income students—0.05 standard deviations per $1,000 over four years, as estimated in prior studies—this additional amount falls to $7,200. The amount of funding required to close the Black-white gap would

[112] Ibid

be slightly larger (between $7,700 and $11,000), and smaller for Latino White gaps (between $5,800 and $8,300).[113]

Given that California's existing spending is already at record levels, it can be assumed that increased spending will not reach the necessary levels to close the achievement gap any time soon. Lafortune also produced data with estimates on how long it would take to close the gap at current per-pupil spending rates. The following table shows per-pupil expenditures by race, EL status, and income.

Table 3

Spending by student subgroup

	Low-income	Non-Low-income	EL	Non-EL	Asian	Black	Latino	White
Total spending per pupil (2019–20)	$19,142	$18,335	$18,846	$18,804	$18,622	$20,254	$18,930	$18,337
Difference: vs non-low-income	$807	$0						
Difference: vs non-EL			$42	$0				
Difference: vs white					$285	$1,917	$593	$0

[114]

Source: California Department of Education, SACS files, enrollment files; authors' calculations

"Put differently, it would take 70 or more years to close income or achievement gaps at current progressivity levels —holding all else equal and assuming that the additional funding annually produces the average effects documented in the literature. Given comparatively higher funding for Black students, current spending differences might close Black-white achievement gaps somewhat

[113] Julien Lafortune, "Understanding the Effects of School Funding," Public Policy Institute of California (Public Policy Institute of California, May 24, 2022), https://www.ppic.org/publication/understanding-the-effects-of-school-funding/#:~:text=They%20find%20that%20a%2010,lower%20incidence%20of%20adult%20poverty.

[114] Ibid

faster, though still in more than 30 years."[115] Lafortune's hypothetical extrapolations indicate that there is still room for improvement in how public schools are financed. An easy solution would be to just spend more for each high-needs student, but aside from additional funding there are a number of other solutions which could reduce the time it takes to close achievement gaps among students and improve California's public education system. There needs to be an emphasis on the teachers, there are many districts in California that are understaffed or staffed with novice teachers because they allocate funds to hiring a higher quantity of teachers instead of paying more per teacher. This can create lower quality classrooms in areas that need the highest quality teachers. The state has allowed for less categorical funds which gives schools the freedom to spend money where needed, however a level of precision with funds should be used to get the highest outcome or value per dollar. For example, if spending money on upgrading desks in a classroom has a smaller impact and comparable cost to upgrading a school's computer lab, then the school should upgrade the computer lab. The first step is to conduct more research in order to understand the individual needs for each school and district, and allocate funds to those schools based on need and highest impact per dollar. It may require more research and reform, but addressing districts with staffing shortages and major facility problems should be priorities for the state.

[115] Julien Lafortune, "Understanding the Effects of School Funding," Public Policy Institute of California (Public Policy Institute of California, May 24, 2022), https://www.ppic.org/publication/understanding-the-effects-of-school-funding/#:~:text=They%20find%20that%20a%2010,lower%20incidence%20of%20adult%20poverty.

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