# Improving California's Education Finance System

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## Introduction

For decades, California's education finance system has failed to provide adequate funding levels to meet education outcome across districts. In 2013, the State of California enacted the Local Control Funding Formula, a revised educational finance system using a weighted cost index to determine funding allocations to schools to the needs of students who struggle the most. California education finance reform comes in light of several court rulings that determined the previous state education finance system had failed to provide equal educational opportunity and adequate levels of resources to its students. In addition, a voter initiative to curb taxes, Proposition 13, largely constrained revenue raising capacity for the State's education system. Therefore, the term "Local Control" refers to community input on academic performance measurement and goals, more than it refers to control over revenue, as local districts are constrained in their ability to raise revenue for their schools. Given the imposed legal and legislative demands, an evaluation of how to reform California's education finance system is worth undertaking. In order to increase the adequacy of the current foundation aid system, we recommend that California improve its cost index measure, increase overall funding, remove the hold-harmless clause, eliminate K-12 categorical aid, renew Proposition 30, and implement a statewide data sharing system and year round community engagement strategy.

## Section I: Context: The Courts, The Legislative Process, and the Public

### *Serrano v. Priest (1971)*

The central court case influencing California education finance reform is *Serrano v. Priest* (1971), in which the California Supreme Court declared the current California education finance system unconstitutional because it relied heavily on the property tax, making "a child's education dependent on the wealth of his or her school district" (Yinger "State Aid" 3). The Court cited the Fourteenth Amendment equal protection clause (*Serrano v. Priest*), which deemed the right to education a "fundamental interest," and rendered wealth a "suspect classification" (*Serrano v. Priest*). A suspect classification is determined based on several criteria characterizing a group, such as possessing a trait that is immutable, that renders the group politically powerless, and that historically has rendered the group disadvantaged ("Suspect Classification").

A closer look at the *Serrano* ruling explains the initial legal philosophy guiding education finance reform in the State. The Court determined there could be two possible measures of a district's wealth: 1) Assessed property value, which is the base for school's property tax revenue-raising capacity, and 2) Amount of expenditure a district can commit to each pupil (*Serrano v. Priest*). Wealthy districts can "have their cake and eat it too"—they can set a lower property tax rate and can still raise a greater amount of revenue to spend per pupil (*Serrano v. Priest*). As far as demand for education, the Court found it unfair that wealthy districts are the only ones who are free to choose the level of education spending they want. The Court's opinion in *Serrano* draws attention to a few guiding principles for our proposal. First, rather than equalizing property tax revenue across all districts, which may be infeasible, an effort to reform the State's education finance system should target per pupil spending, made up of local contribution and state and federal aid. Thus, creating a state aid system that brings all districts up to an adequate spending level is priority. Moreover, regardless of demand for education, the State ought to impose an adequate spending level across all districts, one that adjusts for costs and barriers to adequate performance as well.

**_San Antonio Independent School District v. Rodriguez_ (1973) and _Serrano II_ (1976)**

In the *San Antonio Independent School District v. Rodriguez* (1973) case, a Texas District Court decided that Texas's education finance system violated the Fourteenth Amendment equal protection clause, similarly to the *Serrano* ruling (Cornell University Law School). However, the U.S. Supreme Court reversed the Texas decision and found that education is not an explicit right guaranteed in the U.S. federal Constitution ("San Antonio"). Despite the Supreme Court's ruling in the *Rodriguez* case, in the *Serrano II* case, California upheld its previous ruling in *Serrano I* by basing the equal protection grounds upon the California State Constitution, and imposed a timeframe of six years to bring the State's education finance system into compliance (Stanford Law School).

Briggs and Main interpret the meaning of the *Serrano II* ruling and offer insight on what the ruling demands from the California education finance system. They find that *Serrano II* "necessitates either an actual or an artificial equalization of the wealth of all similar districts, or elimination of local property taxes as a source of local supplements," which they term "fiscal neutrality" (Briggs and Main 472, 480). While eliminating local property tax revenue as a means of funding schools is perhaps too drastic a change to impose, the idea of enhancing equality in per-pupil spending terms is worth pursuing. Such an approach must pay attention to cost adjustment factors in order to ensure that spending levels can also achieve desired outcomes. In order to respond to *Serrano II*'s demands, Coons Clune, and Sugarman propose a "power equalizing" aid system with an incorporated recapture mechanism that would reallocated local revenue raised in wealthy districts to poorer districts (Briggs and Main 465). As to be discussed in a later section, a power equalizing aid approach is not the advised method.

**_Eliezer Williams, et al. vs. State of California, et al._ (2000)**

In the *Eliezer Williams, et al. vs. State of California, et al.* (2000) case, a class action was filed in the San Francisco County Superior Court that claimed that state education agencies "failed to provide public school students with equal access to instructional materials, safe and decent school facilities, and qualified teachers" (California Department of Education "The *Williams* Case"). In response, the State allocated additional funding for the specified areas and for implementation and oversight (California Department of Education "The *Williams* Case"). The *Williams* case draws attention to a defining standard that ought to guide reform in California education finance: adequacy. An adequacy standard guarantees that every pupil attends a school that "delivers an adequate average student performance" (Yinger "Lecture 18").

**Proposition 13 (1978)**

Proposition 13 greatly constrains the ability of localities to contribute their own revenue to the education system and increases dependence upon state aid. Proposition 13 is an initiative that was passed under a nearly two-thirds vote (California Tax Data). It reset assessed value to 1976 levels with a yearly growth cap of no more than 2% for properties until resale (California Tax Data). The property tax rate was restricted to 1% of assessed value (Duncombe and Yinger "Making do" 338). The goal of local control, as under California's current Local Control

Funding Formula, is not clearly fulfilled in light of this constraint upon local revenue raising. Proposition 13 makes it difficult for measures to raise taxes to pass. Any increase in state taxes can be passed only by a two-thirds vote in each legislative house, while any increase in local or special purpose governments can be passed only by two-thirds of voters (California Tax Data).

Proposition 13 may have influenced the percentage of property tax burden that homeowners experience in contrast to commercial and industrial properties. The share of state-wide assessed value attributed to owner-occupied homes increased from 32% in 1986-87 to 39% in 2005-06 (Legislative Analyst's Office "Understanding California's"). Meanwhile, shares for commercial property declined. In Los Angeles County, "total assessed value represented by commercial property in the county declined from 40 percent in 1985 to 30 percent in 2012" (Legislative Analyst's Office "Understanding California's"). Also, in Santa Clara County, the countywide share of assessed value for commercial property, since 1999-00, has fallen from 29 percent to 24 percent (Legislative Analyst's Office "Understanding California's"). These changes in tax share could be partly due to Proposition 13's provision that property is revalued at resale; owner-occupied homes potentially change hands more frequently than do commercial property (Legislative Analyst's Office "Understanding California's").

The constraints in local revenue raising capacity under Proposition 13 call attention to whether the State's new education finance system really fulfills the "Local Control" feature of California's "Local Control Funding Formula." Without ability to raise revenue to meet the level of education that their community wants due to their lack of local economic power, each district instead must rely upon the state-determined level of funding. Therefore, the State has a magnified responsibility to guarantee that a sound level of education is achieved for each district within its jurisdiction through its education finance formula.

### Is Wealth Neutrality Attainable?

The *Serrano* rulings point to wealth neutrality as an emerging standard to guide California's education finance system. What would a system that adopts wealth neutrality as a standard look like? A truly wealth neutral system possibly could eliminate local revenue sources for education and convert them to a state tax. Or, it could continue local revenue raising along with a recapture program as through a power-equalizing aid approach. Such an approach would penalize wealthy districts for raising more property tax revenue and would distribute some of their revenue to poorer districts. While wealth neutrality is theoretically deserving, it lacks feasibility.

We advocate for reorienting our standard from one of explicit wealth neutrality to one of adequacy. The power-equalizing aid approach often does not adjust for costs (Yinger "Lecture 18"). The foundation aid approach "is the only way to ensure adequacy" (Yinger "Lecture 18"). Incorporating cost adjustment factors and ensuring that all students receive an adequate level of education would serve the objective of per-pupil expenditure equalization. As earlier discussed, equalization through the distribution of state aid is a more favorable alternative compared to equalizing local property tax revenue contribution.

## Section II: Local Control Funding Formula

The Local Control Funding Formula (LCFF) is California's first foundation aid formula, enacted in 2013. Previously, the state had a system of over 50 categorical aid programs. The LCFF is being phased in over eight years, and currently is in its third year of implementation. While the LCFF has changed the way funding is distributed, widening the base tax aid given to each district, it has not drastically altered the amount of spending-per-pupil compared to pre-recession spending. California's education finance system still lags behind in many key areas. A report on states' school finance systems by the Education Week Research Center ranked California 46th on adjusted per-pupil expenditures, which are adjustments for regional cost differences (Education Week Research Center). California also ranked low on the number of students funded at or above the national average, at only 7.9%. California's spending on education as a percent of state taxable resources is only 2.7%, ranking at 42nd nationally (Education Week Research Center). A table of these rankings can be found in Appendix 1. These failures in funding should be kept in mind as we explore the current finance system.

California's funding system is a foundation aid formula, which is aid determined by the spending per pupil minus the tax rate times the assessed value of the district's property "*foundation aid…*$A_i = E^* – t^*V_i$ "(Yinger "State Aid" 10). Foundation aid is determined minus the local tax revenue raised, creating an incentive to decrease local taxes. However, Proposition 13 restricts the amount of revenue that districts can raise, serving as a minimum and maximum tax revenue limit. The LCFF funding system expands the amount that property tax revenue is counted against. Under LCFF local property tax revenue counts against the entire LCFF allocation, not just the district's revenue limit. There is a higher threshold for basic aid status under the LCFF, and fewer basic aid districts; districts whose limit is equal to or less than tax revenue raised (Taylor, et al. 10). This new formula, with a higher threshold and less categorical aid, should reduce the variation in base state funding across districts. Currently basic aid districts are made up of coastal wealthy districts and small inland districts with less students, "Basic aid districts are generally more advantaged than other districts. Their residents have higher average salaries and home values" (Weston 2).

LCFF seeks to address equality by providing more aid to schools with more 'expensive' students, known as weighted student funding; "the idea is to give schools with the largest numbers of needy students more money and also more autonomy over spending, in the hopes of reducing inequities and improving achievement" (Diepenbrock). It is possible that a foundation plan with a high foundation level, such as the LCFF, could obtain equality. However, this requires a large increase in state aid/taxes or minimum local tax rate (Yinger "State Aid" 46). The LCFF will increase state aid, but due to Proposition 13 the local tax rate cannot exceed 1%.

**Expenses**

The Local Funding Formula can be broken down into three sections. The first is the base grant. Currently all schools receive base grant funding (California Department of Education "Local Control...Overview"). The base grant for each district is calculated based on the district's Average Daily Attendance (ADA), and weighted by grade spans. There is an adjustment of 10.4% for K–3rd if districts make progress towards smaller class sizes of no more than 24 students in grades K-3rd. There is also a 2.6% adjustment for grades 9-12. This base grant funding formula creates an implicit incentive for districts to have high attendance in order to receive the most funding. There is also an explicit incentive to reduce class sizes in grades K-3rd in order to maximize funding. There is also no adjustment for students who have dropped out, so there is no incentive to give extra attention to low-performing students who are at risk for dropping out of school.

The second part of the LCFF is the supplemental grant, which is 20% of the base grant multiplied by the average daily attendance and the number of targeted disadvantaged students, which includes English learners, students qualified for free or reduced price meals (a measure of poverty), and foster youth. All of these sub-groups are identified as groups that need additional funding in order to receive the same outcome in performance compared to students without these barriers. The count of these targeted groups are unduplicated, so they are only counted once even if a student belongs to each three groups. This approach seems to be a cost saving mechanism that is counter to the goal of the supplemental grants. A poor, English-learning, foster student will inevitably need more resources than a student that fits only one of these criteria. In addition, while the LCFF attempts to address differences in the cost of education performance across demographic differences, it does not address the higher cost of salaries needed to attract teachers in some districts (Duncombe and Yinger “Making do” 340).

The third part of the LCFF is the concentrated grant, which is given to districts where the majority of students are disadvantaged, requiring additional funding. The amount of targeted pupils exceeding 55% of a local education agency’s enrollment is multiplied by the ADA and 50% of the base grant. This is intended to give additional support to districts with a high burden of cost.

The LCFF does have a “Cost of Living Adjustment (COLA)”, which is misleading in its name. COLA is used to adjust funding from the 2013 levels that were originally approved. It is really just a present value adjustment and does not address differences in costs of living across districts. This oversight is important, given California’s low ranking for adjusted per-pupil expenditures for regional cost differences (Education Week Research Center).

Prior to the Local Control Funding Formula, California State had over 60 categorical aid programs, which imposed burdensome “accounting and reporting requirements” and which were not targeted toward outcome measures (California Department of Finance). Categorical aid is targeted aid for specified purposes, “such as K-3 Class Size Reduction…[and] Special Education,” and it generally comes with “restrictions on how the money can be spent” (“Categorical Aid”). When the LCFF was created, policymakers removed around three-quarters of existing categorical aid programs. Fourteen categorical programs are still in place under the new funding formula. They are:

- “Adults in Correctional Facilities
- After School Education and Safety
- Agricultural Vocational Education
- American Indian Education Centers and Early Childhood Education Program
- Assessments
- Child Nutrition
- Foster Youth Services
- Mandates Block Grant
- Partnership Academies
- Quality Education Improvement Act
- Special Education
- Specialized Secondary Programs
- State Preschool”

(Legislative Analyst's Office "An Overview")

A study of how the reduction in categorical aid programs has affected the state aid distribution is worth conducting. Some districts (roughly 230 districts) would have received greater funding under old categorical aid programs than they would have under the LCFF (Legislative Analyst's Office "An Overview"). In response, the LCFF includes a hold-harmless clause which offers an Economic Recovery Target (ERT) add-on which "equals the difference between the amount a district would have received under the old system and the amount a district would receive based on the LCFF in 2020-21" (Legislative Analyst's Office "An Overview"). The ERT add-on is provided to around 130 districts, while the remaining 100 districts who potentially would face a reduction did not receive the compensation due to their very high existing rates for per-pupil funding (Legislative Analyst's Office "An Overview"). While this builds political support and quells fears, it is inefficient in the long run by giving extra funds to districts that do not need it. It also increases wealth-inequality, giving additional funding to already wealthy districts. Districts who received unusually high levels of funding under the old system will continue being entitled to the same level of funding until the LCFF funding levels surpass the old funding level (Legislative Analyst's Office "An Overview").

Although the LCFF offers spending adjustments to compensate for the elimination of several categorical aid programs, there is a remaining issue that some of the retained categorical aid programs limit spending flexibility. In the areas of ROCPs and Adult Education, districts were required "to spend no less in 2013-14 and 2014-15 than they did in 2012-13," as under a Maintenance-of-Effort (MOE) Requirement, which limited "general purpose funding" (Legislative Analyst's Office "An Overview"). Although this requirement was limited only to the first two years of implementation (Legislative Analyst's Office "An Overview"), it highlights the inherent constraint present in a categorical aid funding system that is targeted to very specific needs, rather than allowing for general purpose, as-needed spending. Some categories' restrictions have been lifted so the funds can be used for general education purposes, but this does not change the way the funds are distributed among districts (California Department of Education "Categorical Programs"). Overall, categorical aid poses issues of restriction and inequality that can be better accounted for through a foundation aid formula.

## Revenue

In 2013-14 total revenue raised for California's education system was 47.6 billion. Of this amount, 25% was local revenue, 58% was state aid (including the LCFF), and 17% was from the Educational Protection Account, or proposition 30 (California Department of Education School Fiscal Services Division). Proposition 30, originally passed as an emergency measure in the recession, provides a material share of funding for school districts. The LCFF is still being phased-in and has not reached full funding yet. Currently, average school districts receive 90% of the LCFF target amount (California Department of Education School Fiscal Services Division).

As earlier discussed, Proposition 13 severely constrains the local property tax revenue a community raises for education. The County collects the property tax and distributes it among local governments based on a formula that the state legislature created (Sonstelie). This formula is based on revenue patterns over thirty years old and does not match current demand for public services (Sonstelie). The percentage of property taxes going to school districts varies widely across counties (Sonstelie). Although restricted property tax revenue undermines the meaning of local control under the Local Control Funding Formula, many districts have tried to increase local funding through parcel taxes and foundation aid.

Many municipalities have attempted to get around the restrictions of Proposition 13 by imposing a parcel tax. Generally, the parcel tax is flat tax on all parcels of land, not matter the use of that land. The parcel tax is considered a special district tax, and must be approved by two-thirds of local voters. About half of proposed parcel taxes have been passed, and each varies in the amount of revenue raised; with the median parcel tax at $96 (Sonstelie). While this is a creative way that some districts have been able to raise additional local revenue, it is not a policy solution to the funding challenges California faces.

Wealthy districts have been able to increase their local revenue to meet their demand by raising foundation aid. This is aid that is donated by parent associations, individuals, and nonprofits for local districts. Foundation aid is concentrated in wealthy coastal districts, and further exacerbates wealth inequality in school districts. In 2011, 547 million was raised through foundation aid, which is equivalent to $88 per pupil (Weston, Cook and Murphy). However, because aid is not spread out equally across districts, wealthy districts raise much more than poorer districts. As demonstrated in Appendix 2, districts with the highest number of poor students (measured by free lunch enrollment) raise $2.82 per student compared to districts with the lowest number of poor students which raise $144.4 per student- increasing inequality across school districts (Weston, Cook and Murphy). These variations in foundation aid increase inequality in education funding across districts.

## Section III: Local Control Accountability Plan- Purpose and Requirements

Accountability and transparency are vital to ensuring program effectiveness and efficiency. Three types of accountability system classifications are public reporting, locally defined accountability, and state defined accountability (Yinger "State Aid" 6). The introduction of the LCFF has prompted a shift in the accountability system. The Local Control Accountability Plan is a requirement for school districts to follow based on priorities that state and local educational agencies set and will attempt to meet all three types of accountability systems. The state has begun phasing in new accountability templates, performance monitoring, and standardized tests alongside the implementation of the LCFF.

LCAPs are required for all school districts, County Offices of Education, and charter schools. The three-year plans must be updated annually and use the state-adopted template. Local Educational Agencies (LEAS) have the option to make use of an online dashboard system to enter plan information. There are eight priorities areas that must be addressed within each plan: Basic Supports, Improvement of State Standards, Parent Involvement, Pupil Achievement, Pupil Engagement, School Climate, Course Access, and Other outcomes. These eight areas are then sorted into three themes within the template: Conditions of Learning, Student Outcomes, and Engagement (Children Now).

Student results will be reported by subgroup, which includes unduplicated student status as well as subgroup sorting by ethnicity. The purpose of this is for local districts to develop targeted plans to reach subgroups of students. This allows for flexible local approaches to identify goals and measure progress for those that are struggling.

The State Board of Education (SBE) is in the process of developing LCAP evaluation rubrics that will be used to assess progress across districts within the state. The SBE has convened an Advisory Task Force on Accountability and Continuous Improvement (ACITF) to provide recommendations for the new accountability system (California Department of Education "Local Control", Californians Dedicated to Education).

**Financial Accountability**

Each LCAP includes a section on expenditure information that is connected to an action/goal the district hopes to achieve. These expenditures are expected to be sufficient to deliver services and should be reflected in the district budget based on projection costs at the time of budget adoption. In order for the LCAP to be adopted it must adhere to expenditure requirements that are articulated in the permanent spending regulations as set by the state (Breashears). These regulations are set by the State Board of Education to govern supplemental and concentration grant funding (California Department of Education "Local Control...Overview").

**Academic Accountability**

The goal of the educational finance system should be to give students the opportunity to reach their highest academic and personal potential. Some shifts in the educational environment have spurred new programs to measure academic accountability both within the state of California and across the nation.

The 1999 Public Schools Accountability Act was passed to develop systems to hold students, schools, and districts accountable to student performance. The adopted form of assessments and high school exit exams were aligned to an Academic Performance Index (California Department of Education "The Public Schools"). The State suspended use of the Academic Performance Index during school year 2014-2015 (California Department of Education "The Public Schools"). This suspension was done to allow time for districts to prepare for new Smarter Balance assessments (California Department of Education "The Public Schools"), which are aligned to Common Core State Standards. The state will also be transitioning to a new assessment system, the California Assessment of Student Performance and Progress (CAASPP). Adjustments to the Academic Performance Index can have tremendous ripple effects for underperforming schools and access to Improvement Grants.

The API uses rankings to determine school performance and directs interventions towards those who fall in the bottom 10% in performance (Education Data Partnership). The API system has undergone a number of adjustments throughout the years, the most recent of which being the "Program Improvement" intervention program, which was based on Adequate Yearly Progress as part of No Child Left Behind (NCLB) (Education Data Partnership). The API was meant to include additional performance indicators other than test scores, such as graduation rates and grade eight and nine dropout rates, by 2011, but had been rescheduled for an undisclosed time in the future (Education Data Partnership). Currently, the API is now scheduled to include additional measures of student progress for high schools, which is more in line with the flexibility the LCAP affords to LEAs.

The transition to state common core assessments and state-defined performance indicators aligns with the move toward local control of education, as illustrated by new provisions with the Every Student Succeeds Act (ESSA). President Obama signed ESSA into law on December 10, 2015 ("Every Student Succeeds"). The new law replaces NCLB and has cut controversial parameters such as AYP and definitions of highly qualified teachers (Walker). ESSA also ensures that states cannot be forced to adopt national educational standards by the U.S. Secretary of Education ("ESEA Conference Framework"). Within the California context, ESSA will only affect eligibility for federal funding and not state funding.

The state has convened the Accountability and Continuous Improvement Task Force during this transitionary period. The focus of this task force is to develop a brief to report to the State Superintendent of Public Instruction with a summary of recommendations on the new accountability system. These recommendations can include "strategies for modification and removal of existing law, regulations, and other items supporting the previous API-based system" (Californians Dedicated to Education).

**Community Accountability-Purpose and Requirements**

Each LCAP has minimum requirements for community engagement to collect input. Districts must meet at least once with district advisory committees such as parent-teacher committees or community organized school committees ("LCFF and Requirements"). Districts with populations of English learners greater than 15% are required to convene an English learners' committee to ensure those members' voices can be heard ("LCFF and Requirements"). Districts are required to send out at least one notification to the community notifying them of an opening comment-period for LCAP feedback and hold one public hearing to solicit feedback ("LCFF and Requirements"). The LCAP must be adopted at the same public hearings as budget adoption (Children Now).

## Section IV: Recommendations

Our recommendations aim to obtain an adequate spending objective for California's education finance system. We believe the foundation aid and cost adjustment approach sets the State on the right track to ensuring adequacy. Our recommendations build on these methods, focusing on recommendations we see as politically feasible.

**Cost Index**

One option for estimating the cost of adequacy is the professional judgement approach- asking a panel of educators in the state to estimate the resources (teachers, staff, classrooms, etc.) needed for a school to be successful (Yinger "Case 5"). While this can be costly, it would include local educators in the finance process, giving some legitimacy to the title "local control". On the other hand, an econometric approach uses spending information, student performance measures, student needs, local prices, and other characteristics to estimate the cost per school district (Yinger "Case 5"). One advantage of an econometric approach is that it can be adjusted to estimate costs across performance standards. However, it statistically complex and requires data that currently is inaccessible. We recommend that California adopt a professional judgement approach, as this is likely to yield results similar to an econometric model, be more politically feasible, and provide some semblance of local control. However, we also recommend that California release its spending data so that outside researchers can objectively evaluate the finance system. In the future, adopting an econometric model would be the most efficient and equitable way to allocate spending in order to reach adequate performance standards across the state. Whichever method is used, we suggest that disadvantages student counts be duplicated and that differences in costs across districts be accounted for.

**Increase overall funding**
As outlined in Appendix 1, California ranks in the bottom 25% of states on all measures of education spending (Education Week Research Center). In order really improve education performance, changing the way funding is distributed is not enough. Overall funding must be increased in order to provide the level of resources required by all students in order to meet an adequate level of education. Proposition 13 restricts the ability of districts to increase revenue, so the onus is on the state to increase revenue by allocating more general taxes to education and increasing income-taxes to meet these levels, if needed. Keeping Proposition 30 would also contribute to providing a necessary level of funding to local school districts and improve wealth neutrality. Currently parcel taxes and foundation aid raised in wealthier districts increases inequality. It is important that the increases in revenue are allocated to districts based on the costs each districts face in order to reach adequate performance outcomes.

**Eliminate the hold-harmless clause**
While the hold-harmless clause qualms districts fears during a changing finance system, it is ultimately inefficient and goes against the state's wealth neutrality objective. The LCFF creates additional spending for districts who would have received more funding under retired categorical aid programs (Legislative Analyst's Office "An Overview") and continues to fund these districts at the same levels. We believe that this provision highlights the incongruity of categorical aid programs with the cost adjustment principles of the Local Control Funding Formula. The districts who did not receive additional aid under the old categorical aid system are not compensated now for their previous losses; and the purpose of the new system was to establish a new approach for determining a fair funding system for all districts. Therefore, the new system ought not to rely on funding levels under the old system as a barometer of what is the appropriate level of spending to maintain. We suggest that the hold-harmless clause be discontinued once the LCFF is fully phased in. If there are districts with substantial differences between funding with the hold-harmless clause and funding without, the hold-harmless clause could be phased-out incrementally in order to reduce shock to the affected school districts. Wealthy districts no longer receiving their previous levels may increase foundation aid or parcel taxes in order to meet their demand.

**Renew Proposition 30**
Rather than equalizing local property tax revenue across districts in the state, one alternative to making the education finance system more progressive is to impose a higher state income tax upon wealthy individuals.

Proposition 30 creates:
- "A 10.3 percent tax bracket for single filers' taxable income between $250,001 and $300,000 and joint filers' taxable income between $500,001 and $600,000;
- An 11.3 percent tax bracket for single filers' taxable income between $300,001 and $500,000 and joint filers' taxable income between $600,001 and $1 million; and
- A 12.3 percent tax bracket for single filers' taxable income above $500,000 and joint filers' taxable income above $1 million…"

(California Budget Project)

The new tax rates under Proposition 30 are on a seven-year timeline, and are due to expire in tax year 2018. In addition, Proposition 30 increases the state sales tax by one quarter cent, a measure that expires in December 2016 (California Budget Project). The revenue garnered from this state tax increases provides supplemental revenue for the public school system, and the Legislative Analyst's Office estimated at its initiation that it would "raise an average of approximately $6 billion annually between 2012-13 and 2016-17, and smaller amounts" in other years (California Budget Project). We recommend renewing both measures of Proposition 30—at the new sales tax expiry date of 2016 and at the new income tax expiry date of 2018.

**Eliminate Remaining Categorical Aid**

If adopting a cost-adjustment approach, supplementing spending with special targeted initiatives has the potential to lead to inefficiency in the system. Under the existence of categorical aid programs, it would be unclear as to whether districts are being funded equally and adequately. First, the fairness of the amount allotted through a categorical aid program cannot be substantiated as well as an amount as allocated through a cost adjustment approach can be. Second, the way in which policy makers arrive at the amount to allocate through a categorical aid program may not guarantee adequacy as a cost adjustment approach does. We propose eliminating remaining K-12 categorical aid programs, and instead, incorporating the initiatives and objectives behind the categorical aid programs into further cost-adjusted allotments based on community characteristics and desired programming. Rather than determining an objective to meet and allocating funding for it as is done through categorical aid, the education finance system must assess the population it is serving, and the funding level it would take to propel the population served toward its objectives.

**Statewide Data Sharing System**

The State of California began the process of compiling a educational data dashboard, but it was not completed. The Public Policy Institute of California recommends continuing this process so the state has access to district level data, such as attendance and truancy, behavior and suspensions, and other areas. This system will be useful for practitioners, administrators, and academics alike. Namely, academics will be able to use the data to analyze program performance among the many different approaches district may choose to take.

**Year Round Community Engagement Strategy**

Advocacy groups like Children Now! work to develop frameworks for engaging the community in the LCAP decision-making process year-round. This "above the minimum" approach aims to make community members informed partners in the LCAP process. They argue that one public hearing and one notification will not be enough to have meaningful engagement. The Public Policy Institute of California administered a survey about parent information regarding LCFF and the LCAP process. Only half of respondents remember receiving notification from their child's school about the LCFF, and only a third knew the LCAP process was a part of the LCFF system (PPIC "Reform Efforts"). The state can be doing more to help districts plan for meaningful engagement within their communities by scheduling monthly workshops, sending home notification, making home visits, and reaching those who cannot make the trip to a school function. The materials used in these engagement sessions should be convenient to access, easy to read and follow, and translated into as many languages as need be. If the community is more engaged there is a better chance of schools choosing the approach that best works for their own local students who may be struggling.

Appendix 1.

# SCHOOL FINANCE ANALYSIS

## Equity and Spending Indicators

| From *Quality Counts 2015* | California State Average | California Rank | National Average |
|---|---|---|---|
| **Equity (2012)** | | | |
| **Wealth-Neutrality Score** – Relationship between district funding and local property wealth | 0.080 | 11 | 0.139 |
| **McLoone Index** – Actual spending as percent of amount needed to bring all students to median level | 90.8% | 23 | 90.8% |
| **Coefficient of Variation** – Amount of disparity in spending across districts within a state | 0.194 | 39 | 0.167 |
| **Restricted Range** – Difference in per-pupil spending levels at the 95th and 5th percentiles | $3,305 | 16 | $4,559 |
| **Spending (2012)** | | | |
| **Adjusted per-pupil expenditures (PPE)** – Analysis accounts for regional cost differences | $8,308 | 46 | $11,735 |
| **Students funded at or above national average** – Percent of students in districts with PPE at or above U.S. average | 7.9% | 42 | 43.4% |
| **Spending Index** – Per-pupil spending levels weighted by the degree to which districts meet or approach the national average for expenditures | 85.1 | 37 | 89.4 |
| **Spending on education** – State expenditures on K-12 schooling as a percent of state taxable resources | 2.7% | 44 | 3.4% |
| **GRADE** | D+ | 40 | C |

(Education Week Research Center)

Appendix 2.

**TABLE 3**
The wealthiest schools raise much more than poorest

| Students enrolled in FRPL | Share with active organizations (%) | Total students | Dollars per school ($) | Dollars per pupil ($) |
|---|---|---|---|---|
| 0–20% | 59% | 974,961 | $101,222 | $144.40 |
| 20–40% | 42 | 984,045 | 35,979 | 50.27 |
| 40–60% | 29 | 1,112,974 | 22,048 | 34.43 |
| 60–80% | 13 | 1,389,590 | 5,518 | 8.64 |
| 80–100% | 4 | 1,680,390 | 1,579 | 2.82 |

SOURCE: Authors' calculations.

NOTE: Only support organizations matched to a specific school were included in the calculations. School district support organizations schools were not included.

(Weston, Cook and Murphy)

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