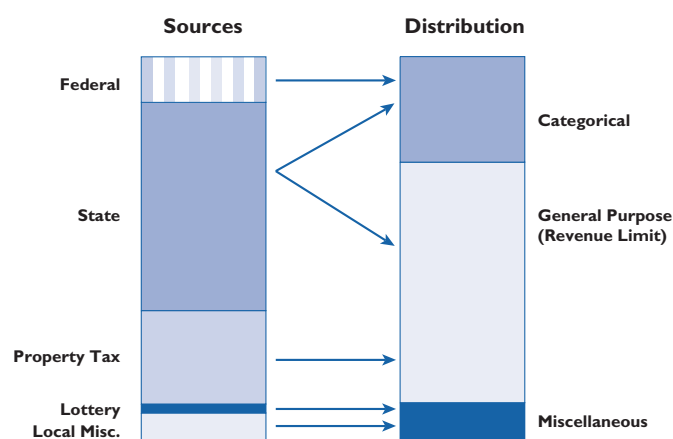




The Basics of California's School Finance System

Every summer the California Legislature and governor decide how much money will go to kindergarten through 12th grade (K–12) public education and how it will be divided among school districts, county offices of education, and the California Department of Education. Although some changes occur each year, the system has looked about the same for more than 25 years.



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What are the sources of revenue?

The column on the left of the diagram shows the five sources of money for schools in California:

- The federal government contributes about 12% of the K–12 budget, up from about 8% in 1996–97.
- About 55% of the funds are from the state—generated by business and personal income taxes, sales taxes, and some special taxes.
- Local property taxes are about 25% of all funds. The Legislature and governor determine what part of these revenues go to schools.
- The tiny line near the bottom of the column—less than 2% of the total, or about \$130 per student—is from the California Lottery.
- Miscellaneous local revenues are about 7% of the total. These come from a variety of sources, including special elections for parcel taxes (needs a two-thirds vote for approval); contributions from foundations, businesses, and individuals; food service sales, and interest on investments.

These simple boxes tell the whole story: there are no other sources of funds to run California's K–12 public

schools. Each school district develops its own budget and pays all its expenses, from teacher salaries to energy costs.

How are the funds distributed to local school districts?

The column on the right shows how the different sources feed into school districts' budgets. As of the early 2000s, almost two-thirds of the money was for general purposes, and almost 30% was earmarked for special purposes or categories of students.

Each district has its own particular combination of federal, state, and local sources. The amount depends on:

- the average number of students attending school over the school year (average daily attendance or ADA);
- the general purpose money the district receives for each student (its "revenue limit"), and
- the support for specific programs for which it qualifies ("categorical aid").

The small **miscellaneous** band at the bottom—which is less than 10% of funding statewide—is important to school districts because, with some exceptions, no restrictions are placed on its use. In some districts, this income represents a significant source of discretionary funds.

How is the amount that goes to each school district determined?

The Legislature established revenue limits at roughly what each district spent on general education programs in 1972, and it has adjusted them for inflation since then. The *Serrano v. Priest* court case, decided in 1976, had the net effect of making districts' general purpose money more nearly equal per pupil in each type of district (elementary, unified, high school). By the late 1990s, revenue limits were within about a \$350 range for districts serving 97% of the state's students. But inequalities do remain, and in 2001–02 legislators passed a multiyear plan for equalizing revenue limits. This plan has yet to be funded.

A district's revenue limit can be increased only by legislation, not by the school board or superintendent or local voters. When property taxes rise from new construction or sale of houses, most schools do not benefit. The additional income goes toward the revenue limit, and the state's share is reduced proportionately. In about 60 of California's 986 school districts, however, property taxes fill up or exceed

the revenue limit. These districts are allowed to keep the money and, based on the state constitution, are guaranteed at least \$120 per pupil in “basic aid” from the state.

Categorical aid is distributed by the state and federal governments according to the needs of the children in the district and the special programs for which the district qualifies. This aid is more than one-third of the income in some districts. Since the 1960s, court decisions, legislative priorities, and pressure from interest groups have created 80-plus categorical programs.

Funding for some programs can be used only to provide specific services, such as school lunches, or to serve the needs of particular students who were traditionally underserved. The largest of these programs is Special Education, which provides funds for extra services needed to educate students with disabilities. Some programs are completely voluntary. Others provide money to help districts pay for services they are required by law to provide. Still others are incentive programs intended to encourage districts to implement a specific program or reform, such as K–3 Class Size Reduction.

The possibility of simplifying the state’s categorical programs and giving school districts more flexibility—while protecting students with special needs—is currently a topic of debate among policymakers.

Do California schools receive enough funding?

In California the question of funding adequacy consistently underlies discussions about improving public schools. Many people point to comparisons with education funding in other states to say California’s funding is insufficient. Most states rely on local property taxes to fund schools. But Proposition 13, passed in 1978, placed a statewide cap on property tax increases, which decreased funds available for schools. In response, the state made up the shortfall and took control of K–12 funding.

In 1988 voters passed Proposition 98, which tied education funding to the state budget. The law creates a set of formulas—based on the health of the state’s economy—for determining the minimum level of state and local property tax support K–12 schools and community colleges should receive annually.

From the 1970s to the mid-1990s, per-pupil expenditures in California lost ground compared to the national average. However, that trend reversed somewhat between 1998 and 2001 as the state invested more in K–12 education. National Education Association (NEA) data for 2001–02 indicate that at \$7,324 per pupil, California spent about \$760 less per pupil than the national average of \$8,087. The state’s budget crisis, which began in 2001, is expected to prevent substantial increases in education spending for several years.

Meanwhile, in 2003 state leaders are expected to appoint a commission to work on creating a Quality Education Model. The commission’s goal will be to help the state determine what level of funding would be adequate to provide the education services schools need to help all students meet the state’s academic standards. The model is also expected to include a re-thinking of categorical funding that provides greater flexibility but includes processes for holding local school districts more accountable for the impact of their management decisions.

Are school resources distributed fairly?

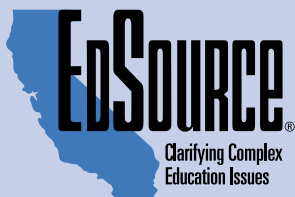
The question of equal access to school services is the subject of a lawsuit expected to go to trial in California late in 2003. In 2000, the ACLU filed suit (*Williams et al. v. State of California et al.*) charging that the state has not met its obligation to provide all students with “basic educational necessities.” The plaintiffs claim that more than one million California students are unfairly deprived of such educational basics as qualified teachers, decent school facilities, and appropriate textbooks.

Some believe these problems stem from the inadequacy of funding in California. Others point to inequities within individual school districts and see it as a local management problem. The Quality Education Model could address many of the concerns raised in the suit. 

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How can I find out more?

- For information and publications about California’s school finance system, go to: www.edsource.org
- For finance data on districts, counties, and the state, go to the Ed-Data Partnership website: www.ed-data.k12.ca.us
- To keep abreast of the *Williams et al. v. State of California et al.* lawsuit, go to: www.decentschools.org



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