

Fourth District Legislative Advocacy Communicator



FOURTH DISTRICT ADVOCACY TEAM

MARCH 2010

California Education Financing Basics:

The way it was, how we got here, and the way it works (or doesn't) today

California used to be like other states, where much of the funding for public education was local: it came from local property tax income, and the local community controlled how that money was spent in local schools.

Naturally, this led to some dramatic differences in the funding levels of school districts across the state.

Rich school, poor school

Wealthy districts, where property values were high, had lots of income to spend on their schools. They could tax themselves at a relatively low percentage of their high property values to get a good deal of money to spend on their own local school districts.

But schools in poor neighborhoods had little to spend on their schools. If the homes in these poor communities were only worth half as much as homes in the wealthier neighborhoods, for example, the only way they could match the dollars being spent in the wealthier neighborhood schools was to tax themselves at a higher rate, to represent a greater percentage of their own, lower property values. Of course, most poor school districts did not impose such a burden on their poor homeowners, so school spending was less in these neighborhoods, the school districts suffered financial hardships, and the schools themselves had to make do with less – which affected the quality of education their children received.



The first big change

The courts recognized that this school funding system was unfair. In *Serrano v. Priest* (1976), the California Supreme Court ruled that education was a fundamental constitutional right, and that basing school funding on local property taxes was a violation of equal protection, since per-pupil spending was far from equal across all state school districts. They required that the state find a way to ensure that basic per-pupil funding of school districts be made equitable, within a small margin.

Calendar of Events

Advocacy Roundtables:

Fridays, 9:30-11:00 a.m., OC Department of Education, Costa Mesa (200 Kalmus Drive, Bldg. D)

- April 16
- May 28

Sacramento Safari:

- Monday, March 22 – Tuesday, March 23

California State PTA Convention, April 29-May 2

Register today! Rally at the Capitol on Thursday, Apr. 29

Earlier, the California legislature had established *revenue limits* (SB90, 1972), which is a term that refers to a maximum amount of tax money that each district may receive per pupil (a step that began the shift towards state control of school spending). Revenue limits were later adjusted for inflation over the years.

To address the issue of equalized funding, school districts were divided into three types: elementary, high school, and unified. They were then further broken down into small versus large districts to ensure that appropriate funding comparisons could be made. (Excluded from these calculations are special-purpose funds or *categoricals* – funds that go to districts for a particular purpose or special program, in addition to their revenue limit, such as for special education or class size reduction).



The next big change

In the 1970s, inflation greatly raised property values in California while making people's money worth less – they had to spend a greater number of dollars to purchase the same goods as just a few years earlier.

Because property values were so much higher, they were reassessed (values were adjusted by local governments) so that the amount of property taxes people paid often went up dramatically. Essentially, homeowners (and other property owners) had to pay a lot more every year in taxes for the same old house that they had before. This was especially difficult for people on a fixed income, and for wage earners who had to spend more of their incomes than before to meet rising prices.

A tax revolt took place in California in the form of **Proposition 13 (1978)**. Voters passed a constitutional amendment that capped property tax rates and limited increases in assessed values. Additionally, Prop 13 required a 2/3 vote before any new local taxes could be imposed. What Prop 13 meant to schools was that local property taxes were no longer the major source of school funding, and that education funding was shifted to become the responsibility of the state. So the governor and the legislature took over the job of allocating local property taxes to schools, cities, counties, and special districts. Tax money went up to the Capitol, where they decided how money should be spent on schools, and then, eventually, the money came back down to the schools from there.



Schools try to recoup their losses...but lose that bet

The loss of local property tax income hurt schools significantly. One way that California voters tried to make up for the loss was by setting up the California state lottery (**Lottery Initiative, 1984**). They approved limited gambling, with the idea that the money generated could go towards schools. However, this did not come close to solving the schools' financial situation: as it turned out, just 34% of lottery revenues are distributed to education, making up just about 1% of K-12 education annual funding today.



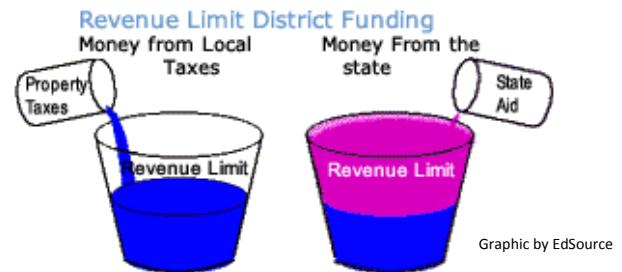
The biggest changes of all

With schools floundering through the 1980s, another proposed solution came through the initiative process (where signatures are gathered on a petition to place a ballot proposition before voters to enact laws). Voters passed a constitutional amendment, **Proposition 98 (1988)**, in an attempt to guarantee a minimum level of funding for K-14 public education. (This referendum also required schools to publish an annual School Accountability Report Card [SARC] that includes test scores, dropout rates, teacher qualifications, etc.)

How does it work? In reality, the complexities of calculating the formulas that determine the amount of tax revenue to be used towards school funding are truly understood by few people (and even argued over amongst themselves). The Prop 98 minimum for any given year is determined by using one of three complicated "test" formulas. Moreover, the guarantee – whatever it is determined to be – may be suspended for a year by a 2/3 vote of the legislature, with the governor's signature, as a safety net for when the state faces hard economic times.

A simplified way to describe how it works is this: Local property tax money goes to Sacramento; if it is not

enough to meet a school district's needs – the district's *revenue limit* – then the state adds money to make up the difference. Districts that have enough local property taxes to meet their own revenue limits just keep their tax funds and pay for their schools without aid from the state. (Again, funding for categoricals is separate from this process.)



In good years, the state receives enough money from income, sales, and capital gains taxes to fund the state's education needs according to Prop 98. But in bad years, the state receives considerably less income overall, since it depends so heavily on taxes received from its wealthiest citizens (who, in difficult times, don't see as great a return on their investments – or even sustain losses, and therefore pay less money in taxes).

Some of the ways that communities have tried to supplemental their own schools include community education foundations, parcel taxes, municipal bonds, and PTA sponsorship of programs. Some districts have been able to effectively make greater use of categorical funding. Others create charter schools to meet their needs. And while access to federal stimulus funds were sought by many districts this year, these *Race to the Top* incentives were only a one-time source of funding, with so many undefined mandates attached to them that many districts opted not to pursue them.

As school districts face cuts in programs to meet their shrinking budgets, the ranking of California's schools continues to fall when compared to the rest of the nation. Some education advocates have come to believe that the current system has reached a point where it is failing to provide the constitutionally-guaranteed right to education. Overall government reform efforts remain stalled. And the future of California's children remains unclear.

Ask the Advocacy Team

If you have any questions concerning advocacy issues, please contact us at: advocacy@fourthdistrictpta.org.

Key PTA Links

www.fourthdistrictpta.org – Click on **Advocacy**
www.capta.org – Select from menu: **Programs and Services: Advocacy and Children's Issues: Legislation**
www.pta.org – Click on **Take Action**