

How Does California Compare?: Funding California's Public Schools

Discussions of spending for public education often compare California to other states and to itself over time. While such comparisons do not take into account how much it actually costs to provide a quality education to California's students, they do provide one measure of whether California spends an appropriate amount on public schools. California's spending for public education has generally lagged that of the nation, with the gap widening after the passage of Proposition 13 in 1978. Moreover, California's system of financing schools – which relies heavily on state funding and relatively less on the local property taxes – differs from the pattern of the nation as a whole, largely due to Proposition 13's limits on the local property tax and other local revenues, as well as measures enacted after Proposition 13 to help schools and local governments cope with the loss of local revenues. This School Finance Facts compares school spending and revenues in California to that of other states and over time and compares where California's schools get their money – and why – to the nation as a whole.

How Does California's Education Spending Compare to Other States?

In 2005-06 – the most recent year for which data are available – California's spending for public schools lagged that of the nation.¹ California's schools:

- Ranked 34th among the 50 states in K-12 spending per student, spending \$959 less per student than the US as a whole (Table 1). To reach the US level of spending per student, California's schools would have had to spend an additional \$5.9 billion in 2005-06, an increase of 11.1 percent.
- Ranked 34th in education spending as a percentage of personal income – a measure that reflects the size of a state's economy and the resources available to support public services. To reach the national level, California's would have had to spend an additional \$4.8 billion on education in 2005-06, an increase of 9.2 percent.
- Ranked 48th in the nation with respect to the number of students per teacher. California averaged 19.1 students for each teacher, while the US as a whole averaged 14.7 students per teacher in 2005-06.

Table 1: California's Schools Lag Other States in Spending By a Number of Measures, 2005-06

	California Rank	California	US
K-12 Spending Per Student	34	\$8,607	\$9,566
K-12 Spending as a Percentage of Personal Income	34	3.82%	4.17%
Number of K-12 Students Per Teacher	48	19.1	14.7

Note: Spending per student and number of students per teacher are based on Average Daily Attendance (ADA). Source: National Education Association and US Bureau of Economic Analysis

How Has Spending for Schools Changed Over Time?

Since the early 1980s, California's spending for education has lagged that of the US as a whole as measured by a number of indicators. Specifically:

- During the 1970s, California's school spending per student was close to, or even higher than, that of the US as a whole (Figure 1). Since 1981-82, California's has consistently spent less per student than the US as a whole. During most of the 1990s, California lagged the nation in per student spending by more than \$1,000 in inflation-adjusted dollars. More recently, California has continued to trail the US, but by somewhat lesser amounts.
- California's spending on schools, measured as a share of its personal income, has also lagged that of the US as a whole for more than three and a half decades (Figure 2). In 1977-78, immediately prior to the passage of Proposition 13, California's school spending equaled 3.76 percent of personal income, while that of the US as a whole equaled 4.15 percent. During the 1980s and 1990s, California's school spending as a percentage of personal income declined, dipping as low as 3.16 percent in 1983-84 and 1984-85. The gap has somewhat narrowed over the past ten years. In 2005-06, California's school spending equaled 3.82 percent of the state's personal income, while that of the US as a whole equaled 4.17 percent.

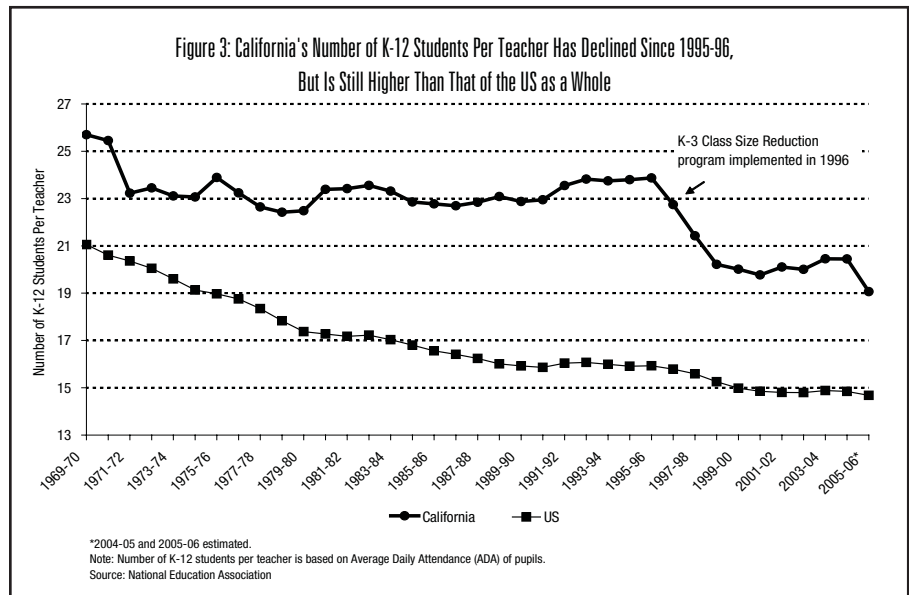
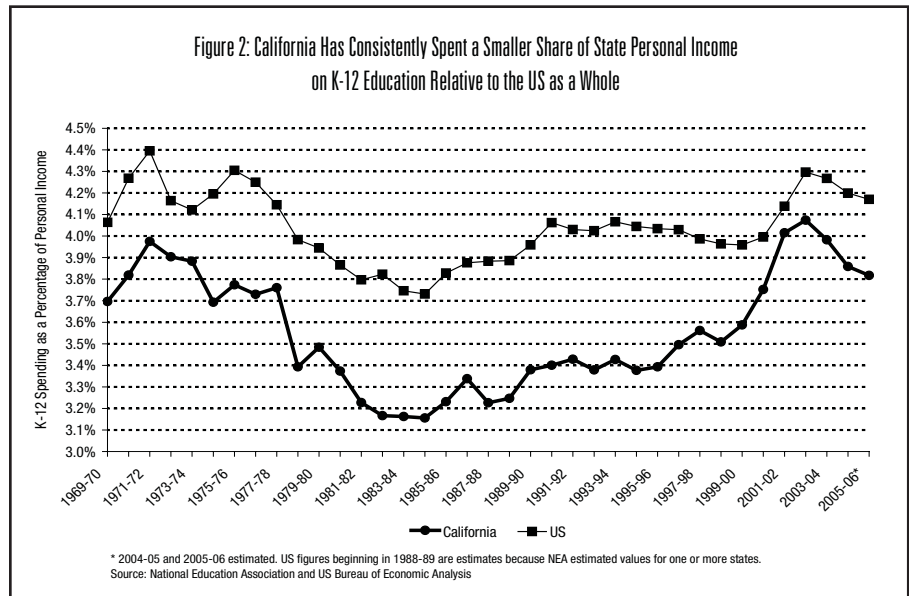
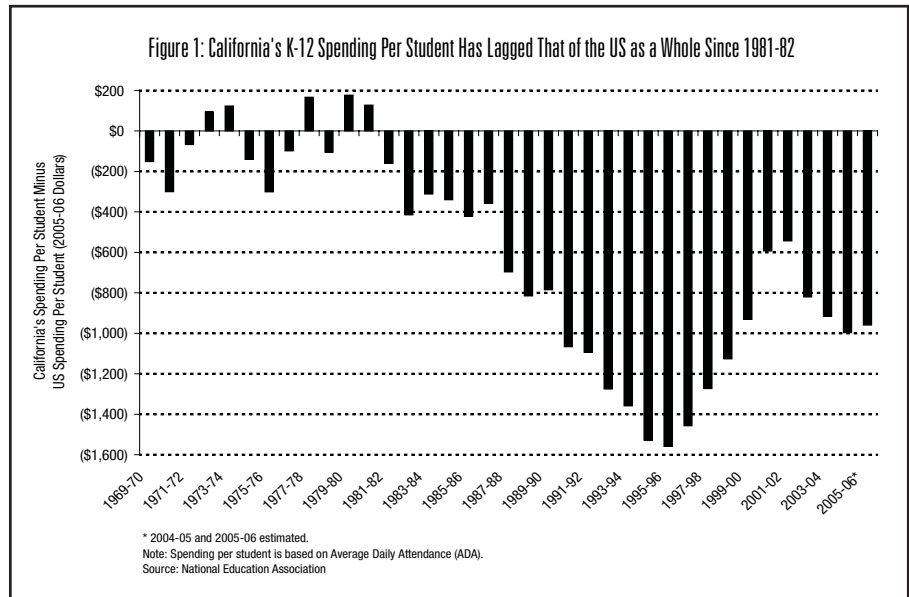
- California has more students per teacher than the US as a whole (Figure 3). In 1971-72, for example, California had only 2.9 more students per teacher than the US as a whole. The gap between California and the US widened over the next two decades, with California having as many as 7.9 more students per teacher than the US in the mid-1990s. This gap has since narrowed, partly due to the state's Class Size Reduction Program for grades K through three adopted in 1996.² In 2005-06, California had 4.4 more students per teacher than the US as a whole, the smallest gap since 1977-78.

How Are California's School Dollars Spent?

While California spends less per student than do schools in the nation as a whole, a larger share of each dollar spent in California goes toward instruction and student services. In 2004-05, California's schools spent 4.7 cents of each dollar for K-12 education on administration, food services, and other expenses, while schools in the US as a whole spent 6.1 cents of each education dollar for these purposes (Figure 4). In contrast, California's schools spent 95.3 cents of each education dollar on instruction and student services, while schools in the US as a whole spent 93.9 cents for the same purposes. California's relatively high level of classroom spending reflects the fact that teacher salaries are higher, on average, in California - \$59,345 in 2005-06 - than those in the nation as a whole (\$49,109).³

Where Does the Money for California's Public Schools Come From?

California's schools receive a great share of their dollars from state, rather than local, funds. In 2005-06, California's elementary and secondary schools received 61.4 percent of their revenues from the state and 27.3 percent from local sources, primarily local property taxes. In contrast, schools in the US as a whole received 47.7 percent of their dollars from state sources and 43.2 percent from local funds, primarily property taxes (Figure 5).



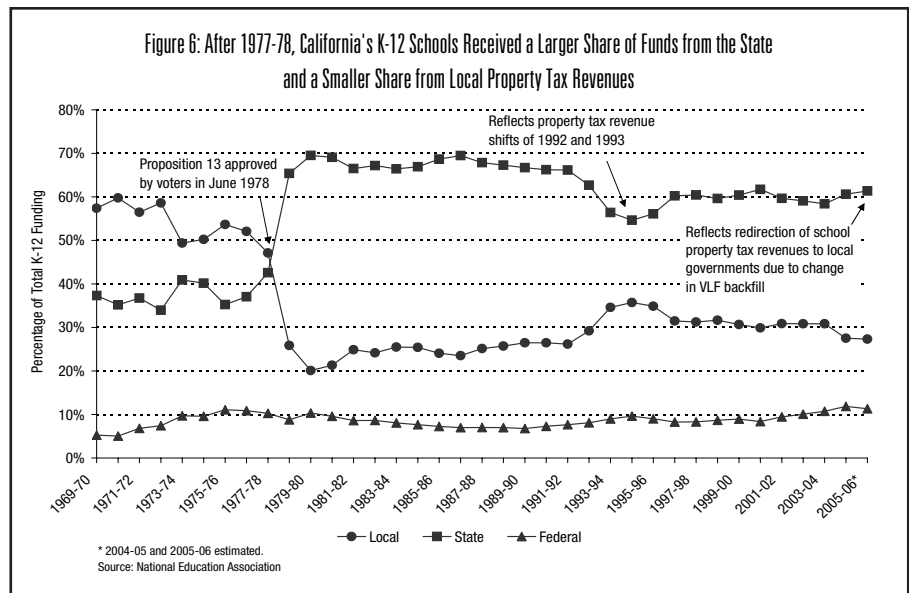
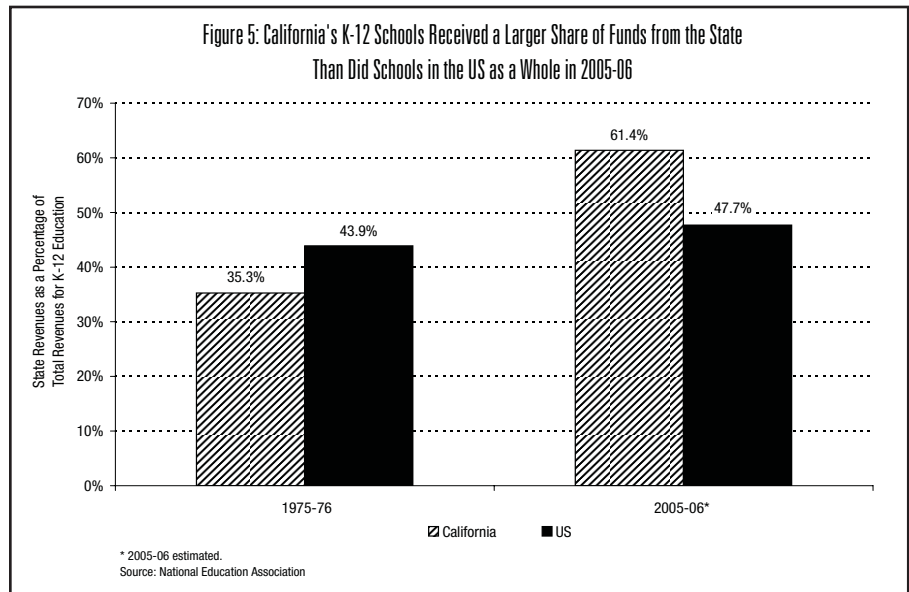
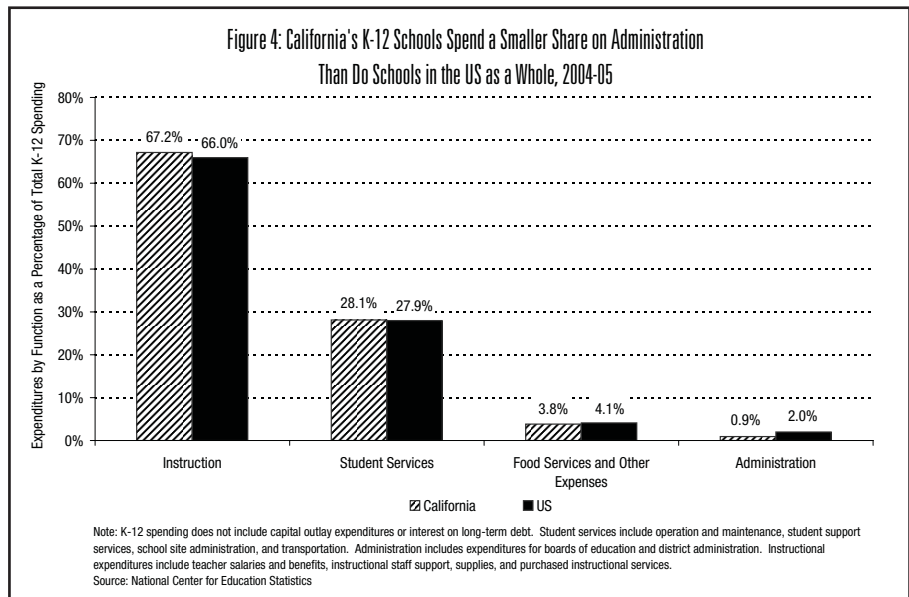
The share of funding for California's schools coming from federal funds in 2005-06 (11.3 percent) was approximately equal to the share in 1975-76 (11.1 percent). This share has remained steady over time and was somewhat higher than for the US as a whole in both years.

States use different approaches to funding education. In some states, schools receive a larger share of their dollars from the local property tax, while in others; schools receive a larger share from state funds. In 2005-06, California was one of just ten states in which state funds accounted for more than 60 percent of K-12 education revenues.⁴

Why Is California's System of School Finance So Different?

Local revenues account for a relatively small share of the total funds received by California's schools largely because of Proposition 13.⁵ In 1977-78, immediately prior to the passage of Proposition 13, local revenues provided 47.1 percent of the funding for California's public schools. By the early 1980s, local sources provided about one out of every four dollars received by public schools (Figure 6). This shift reflects state legislation aimed at cushioning the impact of Proposition 13 on local governments.

Proposition 13 reduced property tax revenues, which are distributed to schools and local governments, by 53 percent.⁶ The Legislature responded by shifting property tax revenues from schools and community colleges to cities, counties, and special districts in 1979. In turn, the state increased its share of funding for schools and community colleges.⁷ This shift was partially reversed on a permanent basis in the early 1990s in response to state budget shortfalls. The property tax shifts of the early 1990s reallocated property taxes from cities, counties, and special districts to schools and community colleges and reduced state spending for schools on a dollar-for-dollar basis. The Legislature enacted similar shifts on a temporary basis in 2004-05 and 2005-06. Proposition 1A, approved by voters in November 2004, severely limited the Legislature's ability to enact similar shifts in the future.



In most states, school districts have the authority to adjust local property tax rates to raise the resources needed to support local schools. California's Proposition 13 capped the local property tax rate at 1 percent and Proposition 1A of 2004 "locked in" the allocation of revenues among schools, cities, counties, and special districts.⁸ Several ballot measures, including Proposition 13 and Proposition 218 of 1996, limit school districts' ability to raise additional revenues at the local level. Proposition 218 requires local school districts to submit tax increases to the voters for approval by a two-thirds vote, except for property tax increases dedicated to repayment of school bonds, which can be approved by 55 percent of local voters.

California's greater reliance on state dollars also reflects the impact of a series of court decisions, beginning with the 1976 California Supreme Court decision in *Serrano v. Priest*, that found that the schools' dependence on local property taxes violated the equal protection rights of students in districts with relatively low property wealth since the same property tax rate generated less revenue in low property tax wealth districts than it did in high property tax wealth districts. The state's response to these decisions established a limit on the combined state and local revenues received by a school district and used state funds to help equalize the funding available to high and low property wealth districts.⁹

END NOTES

¹ Unless otherwise noted, rankings and national data exclude the District of Columbia.

² The K-3 Class Size Reduction Program provides school districts with incentive funds to reduce class sizes in grades K through 3 to 20 or fewer students per teacher. Districts can also receive incentive funds to reduce class sizes in ninth grade English and in one additional ninth grade subject through the Morgan-Hart Class Size Reduction Act adopted in 1989. BP analysis of Department of Finance, *Governor's Budget 2007-08*, pp. EDU 2, 59, 92, and 107.

³ National Education Association, NEA Research, *Rankings & Estimates Rankings of the States 2005 and Estimates of School Statistics 2006* (November 2006), p. 92. National average includes the District of Columbia.

⁴ CBP analysis of National Education Association data.

⁵ Proposition 13 limited property tax rates to 1 percent of a property's assessed value and replaced the practice of annually reassessing property at full cash value for tax purposes with a system based on cost at acquisition. Under Proposition 13, property is assessed at market value for tax purposes only when it changes ownership, and annual inflation adjustments are limited to no more than 2 percent. For a more comprehensive discussion on Proposition 13, see California Budget Project, *Proposition 13: Its Impact on California and Implications for State and Local Finances* (April 1997).

⁶ California Budget Project, *Proposition 13: Its Impact on California and Implications for State and Local Finances* (April 1997), p. 6.

⁷ California Budget Project, *Proposition 13: Its Impact on California and Implications for State and Local Finances* (April 1997), pp. 2-3.

⁸ Rates above 1 percent are allowed for bond measures approved by local voters.

⁹ For a discussion of the *Serrano* case and subsequent efforts to address disparities in school funding, see Paul M. Goldfinger and Bob Blattner, *Revenues and Revenue Limits A Guide to School Finance in California* (School Services of California, Inc.: 2005).

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