Improving Education Financing in California: Why the Local Control Funding Formula a Step In the Right Direction

Introduction

“We recognize that money alone is not the panacea that will transform [a] school system into a model of excellence. Although a student’s success depends upon numerous factors besides money, we must ensure that there is enough money that students have the chance to succeed because of the educational opportunity provided, not in spite of it.”¹

Overwhelming research exists indicating that the quality of education is related to the money allocated to education.² California’s Local Control Funding Formula, enacted in 2013-2014, is a formula that seeks to ensure a proper and equitable allocation of education funds and seeks to give school districts flexibility over spending decisions. This paper will discuss how the formula is an example of legislation that facilitates, rather than frustrates, education because it is an efficient funding formula that improves equal educational opportunities and promotes quality education.

History of Education Funding in California

There is no federal constitutional right to an education, but states have the constitutional power to require equal access to a quality public education.³

In 1976 the California Supreme Court found that California’s school financing system for elementary and secondary schools resulted in an unequal per pupil expenditure that violated the Equal Protection Clause of the State Constitution.⁴ This is because the system of funding at the time relied heavily on property taxes, which essentially conditioned the availability of school revenue upon district wealth. This resulted in drastic disparities in school revenue, which

² Id. at 140.
⁴ Serrano v. Priest and Funding, supra note 3
Improving Education Financing in California: Why the Local Control Funding Formula a Step In the Right Direction

translated to immensely unequal per-pupil expenditures.\(^5\) To illustrate the disparity, the court provided an example involving three Los Angeles County school districts: the Baldwin Park Unified School District, the Pasadena Unified School District, and the Beverly Hills Unified School District.\(^6\) Despite state grants to offset inequalities in the financing system, the assessed valuation per child in each of the districts totaled $3,706, $13,706, and $50,885 respectively.\(^7\) The court held that as long as local wealth is the principal determinant of revenue in a particular district, unconstitutional disparities in expenditures per pupil would continue to exist regardless of any state grants targeted at improving inequality.\(^8\)

In the late 1970’s, after the court’s decision in Serrano, California discontinued its system of education financing where districts were funded by its own property taxes and enacted a of “revenue limits” system.\(^9\) The governor and the state legislature would now collect and control the funds allocated to each school district.\(^10\) This state-centralized system allocated funds from a pool that included approximately 10% federal funds, 60% state budget funds, 23% local property taxes and sales taxes, and 6% miscellaneous local revenue, among other things.\(^11\) The Revenue Limits System was a per-student based grant that varied by grade span.\(^12\) The amount of funds allocated to each grade span was largely determined by the governor and the state legislature, and this limit would then be multiplied by the average daily attendance of the school to determine that school’s

\(^6\) Serrano v. Priest, 18 Cal.3d at 740
\(^7\) Id.
\(^8\) Id., at 747
\(^9\) Serrano v. Priest and Funding, supra note 3
\(^10\) Ed-Data, A GUIDE TO CALIFORNIA’S SCHOOL FINANCE SYSTEM (BEFORE LCFF), The Sources of Funding for Schools, http://www.ed-data.k12.ca.us/Pages/Serrano.aspx (last updated March 28, 2014) (hereinafter “Before LCFF”)
\(^11\) Id.
\(^12\) Id.
Improving Education Financing in California: Why the Local Control Funding Formula a Step In the Right Direction

revenue limit.\textsuperscript{13} This number made up approximately 70\% of a district’s budget.\textsuperscript{14} In addition to the set per-pupil revenue limit calculated by average daily attendance, additional funds were given for revenue programs earmarked by the state and federal government as Categorical Funding.\textsuperscript{15} These programs include initiatives such as After School Education and Safety, Child Nutrition, Special Education, and State Preschool.\textsuperscript{16}

The Revenue Limits System was problematic because when the state of California experienced budget problems, this resulted in a decrease in the overall pool of funds and the amount of funding each school district would receive.\textsuperscript{17} It in effect directly connected to any budgeting constraints or revenue shortcomings the state would experience to how much funding a school district will receive.\textsuperscript{18}

Furthermore, this system has only changed since the 1970’s by accretion; where each year the state lays on another group of revenue programs connected to the Categorical Funds mentioned above.\textsuperscript{19} This has resulted in state revenue being allocated to school districts through so many channels that it is difficult to determine why some schools receive additional funds while others do not.\textsuperscript{20}

The categorical funds also attached initiatives to each particular revenue program, which effectively removed from the school districts the ability to substantially control their revenues.\textsuperscript{21}

\begin{flushright}
\textsuperscript{13} Id.
\textsuperscript{15} The Sources of Funding, supra note 10
\textsuperscript{16} Mac Taylor, An Overview of the Local Control Funding Formula, LAO, Dec 2013, at 4. (Hereinafter “an Overview”)
\textsuperscript{17} Before LCFF
\textsuperscript{18} Id.
\textsuperscript{19} Id.
\textsuperscript{20} Id.
\textsuperscript{21} Id.
\end{flushright}
Improving Education Financing in California: Why the Local Control Funding Formula a Step In the Right Direction

Because funds from revenue programs had to go towards the categorical program it was attached to, school districts were prevented from spending funds where they saw fit based on the needs of their particular district during that fiscal year.\(^22\)

As of 2009, the average expenditure per student was $7,287 in the 5\(^{th}\) percentile, $8,825 as the median, and $17,918 as the 95\(^{th}\) percentile.\(^23\) Although these numbers do not vary as drastically as the expenditures from the three districts cited in *Serrano*, they are still nonetheless disparate in spread. California saw the pressing need to revamp this Revenue Limit System and provide a more streamlined approach that allocates funds where it is needed and gives school districts more control over how their funds should be spent to meet the pressing needs of their particular district. The result is the Local Control Funding Formula.

**An Overview of the Local Control Funding Formula**

Enacted in 2013-2014, the Local Control Funding Formula seeks to change the way the state allocates funding to school districts.\(^24\) Transition to the new formula began with the 2014 fiscal year, but full implementation is anticipated to take eight years.\(^25\)

The formula itself falls under the “foundation” type of education funding and is calculated based on a legislative judgment about the amount of money that must be allocated to each student for that student to receive a minimal education.\(^26\) Districts will receive a bulk of their funding

---

\(^{22}\) Id.

\(^{23}\) Id. at 132, supra note 1

\(^{24}\) An Overview at 1.

\(^{25}\) Understanding

\(^{26}\) Id.
Improving Education Financing in California: Why the Local Control Funding Formula a Step In the Right Direction

based on average daily attendance in four grade spans. Each grade span has a rate that was calculated based off of the general cost of education for those grades. The rates are:

<table>
<thead>
<tr>
<th>Grade Span</th>
<th>Base Rate per Pupil</th>
</tr>
</thead>
<tbody>
<tr>
<td>K-3</td>
<td>$6,845</td>
</tr>
<tr>
<td>4-6</td>
<td>$6,947</td>
</tr>
<tr>
<td>7-8</td>
<td>$7,154</td>
</tr>
<tr>
<td>9-12</td>
<td>$8,289</td>
</tr>
</tbody>
</table>

The base rates are then adjusted to allow additional funds for “high needs” students classified as “English Learners” or “Low Income Students.” English Learners are students who have not passed the California English Language Development Test after their parents or guardians have indicated that their primary language is a language other than English. Low Income Students are students who qualify for free or reduced meals. Adjustments allow high needs students to receive an additional 20% of funding, which is calculated based on their grade-span base rate. If a school district’s total population consists of more than 55% high needs students, that district will also receive concentration funding, which is an additional 50% of the adjusted base rate for each high needs student above the 55% threshold.

Between now and full implementation of the formula, school districts will receive the same amount of funding they received in 2012-2013, but with an additional increasing amount during each year to help bridge the gap between current funding levels and the new Local Control Funding Formula target levels. A majority of school districts will receive more funding under the

27 An Overview at 2.
28 Id., at 4
29 Id., at 4
30 Id.
31 Id., at 3
32 Id.
33 Understanding
Improving Education Financing in California: Why the Local Control Funding Formula a Step In the Right Direction

new formula.\textsuperscript{34} Districts that up until 2014 had received more funding than their Local Control Funding Formula target are protected by a provision specifying that no district will receive less state aid than it received in 2012-2013.\textsuperscript{35} At full implementation, most districts are slated to receive 20\% more money for “high needs” students as defined above.\textsuperscript{36} The high needs fund replaces the restrictive categorical funds.\textsuperscript{37}

\textbf{An Efficient Formula}

\textit{“In designing a school finance system, the challenge is to direct resources to schools with the most need without creating perverse consequences.”}\textsuperscript{38}

The traditional method of education funding, where school revenue came from property taxes of the area in which the school district resides, has been widely criticized as inefficient in promoting equal funding in educational opportunities. As discussed in \textit{Serrano}, the greater the property wealth in a district, the greater the tax base.\textsuperscript{39}

Under the previous formula, districts with low property values were trapped in a “cycle of poverty”.\textsuperscript{40} A “cycle of poverty” occurs when an inadequate tax base forces the district to tax at a significantly higher rate in order to obtain funding to meet minimum requirements for accreditation.\textsuperscript{41} Consequentially, these higher tax rates discourage new residents, industry, and development, which are factors that have the ability to improve that district’s tax base.\textsuperscript{42}

\textsuperscript{34} Id.
\textsuperscript{35} Id.
\textsuperscript{36} Id.
\textsuperscript{37} An Overview at 7.
\textsuperscript{38} Before LCFF
\textsuperscript{39} Serrano v. Priest, 18 Cal.3d at 747.
\textsuperscript{40} Id. at 130, supra note 1
\textsuperscript{41} Id.
\textsuperscript{42} Id.
Improving Education Financing in California: Why the Local Control Funding Formula a Step In the Right Direction

district is then left in the same position as before – trying to meet requirements with an inadequate tax base and resorting to taxing at a significantly higher rate.43

The Local Control Funding Formula attacks this issue through its foundation approach by continuing to use a state-centralized system of allocating funds that works to disconnect education funding from the wealth of the community in which the school is located. The formula does so by setting a uniform grade-span base rate that is allocated by the state and applies in all school districts.44 Adjustments are made to offset factors that are external to the student population size. Additional funds are granted to students whose needs are not related to the effectiveness of teachers and schools in an effort to help improve their education opportunities.

That Improves Educational Opportunities

“The fundamental purpose of the state’s school finance system...is to ensure that schools have the resources their students need to learn the academic content the state has specified for them.”45

It is a fact of life that we live in a world where the quality of education provided by a school and the level of learning achieved by a student relies heavily on standardized tests and state assessments. Empirical studies show that funding and socioeconomic status plays a large part in the overwhelming variances in test scores when different schools are compared.46 Better test scores translate to access to better higher education, which can be a gateway towards a successful career. Accordingly, a remedy that genuinely strives towards equal educational opportunities

43 Id.
44 An Overview at 2
45 Before LCFF
Improving Education Financing in California: Why the Local Control Funding Formula a Step In the Right Direction

should require students who are at an educational disadvantage be afforded more, not less, resources.47

Suggestions for improving students’ performance on tests and assessments through funding have included tying a school’s funding directly to its proficiency rate.48 This is problematic because it either punishes a school for poor performance or it punishes a school for good performance.49 If schools were threatened with decreased funding as a result of low proficiency rates, then the schools that do not meet the rates will be stripped of the resources they need, making the required proficiency rate even more difficult to obtain. If schools were supplemented with additional resources for having low proficiency rates, then the effective schools who do meet proficiency requirements are “rewarded” with less funding, because those resources would be transferred to schools that have low proficiency.50

The Local Control Funding Formula tackles the issue of giving a school the resources it needs to meet state and national proficiency rates without perverse consequences by allocating resources that are not directly tied to the school’s performance. Instead, the Local Control Funding Formula targets two “high needs” factors that are considered unrelated to the effectiveness of teachers and schools: English Learners and Low Income Students.51

The first “high needs” factor addressed by the Local Control Funding Formula is English Learners. California has a large immigrant population that includes many students who do not

47 Id. at 139, supra note 1.
48 Heather Rose, Ria Sengupta, Jon Sonstelie, Ray Reinhard, Funding Formulas for California Schools: Simulations and Supporting Data, Public Policy Institute of California, Jan. 2008, at iii (hereinafter “Funding Formulas”)
49 Id.
50 Id.
51 An Overview at 3.
Improving Education Financing in California: Why the Local Control Funding Formula a Step In the Right Direction

speak English or whose native language is not English and who is currently not able to perform classwork in English. These students score significantly lower on standardized achievement tests and large differences in proficiency are evident in their coursework. The Local Control Funding Formula targets this group of students by allocating an additional 20% of their grade-based rate to their school. In addition, if that school contains more than 55% of English Learners, the formula will allocate another additional 50% of the already adjusted base rate for each student over the 55% threshold. This seeks to provide schools with English Learners the additional resources it needs to bring the student up to proficiency in standardized tests and in the classroom. The formula does not place a time limit on how long a student may remain an English Learner. Rather it leaves the student’s English proficiency status up to assessment performance and input from his or her teachers, giving the student their learning.

The second “high needs” factor addressed by the Local Control Funding Formula is Low Income Students. These are students who receive free or reduced-price lunch, which is based on the income of their family. California Standardized Tests have shown that the relationship between family income and student achievement is clearly evident. Only 35% of economically disadvantaged second graders were proficient or advanced in the English-Arts California Standardized Test, in contrast to 67% of other second graders who were not categorized as “low

52 Funding Formulas at 3.
53 Id.
54 An Overview at 4.
55 Id.
56 Id.
57 Id.
58 Id.
59 Funding Formula at 6.
Improving Education Financing in California: Why the Local Control Funding Formula a Step In the Right Direction

Low-income families are less able to afford the educational resources that supplement the education students receive while in school. In addition, when there is a concentration of poverty, studies have shown a peer relationship where an individual student is less likely to succeed in school if his or her peers are generally unsuccessful or not proficient. The Local Funding Formula seeks to supplement the resources that low income families are unable to afford with a 20% adjustment on that student’s expenditure based on their grade-span. The formula addresses the concentration of poverty issue by allocating an additional 50% of the adjusted base rate to every student who passes the same 55% threshold as the one set for English Learners.

Studies have shown that there is an overlap between the two factors described above. In California, 39% of Low Income students are also English Learners. The Local Control Funding Formula addresses this issue by stating that students who are both Low Income and English Learners are counted only once in regards to all adjustments. This may be slightly problematic because the resources needed to address an English learner and the resources needed for a low-income student do not decrease once the two factors are merged into one student. However, it may pose an undue burden on the state to calculate the exact resource needs of each student that qualifies under both factors.

Once a school’s funds have been adjusted, they are given to the school to be spent in the way the school sees fit.

---

60 Id.
61 Id.
62 An Overview at 4
63 Id.
64 Funding Formula at 6.
65 Overview at 5
Improving Education Financing in California: Why the Local Control Funding Formula a Step In the Right Direction And Promotes Quality Education

Because the conditions in which districts operate vary across the state, school districts should be afforded greater flexibility in their spending decisions.\textsuperscript{66}

In order to provide adequate resources that are effective in providing a quality education, the school administration should be afforded a certain level of flexibility in regards to funds. This is because they are the most knowledgeable in regards to what resources are needed and how the funds should be spent. Traditionally, 90\% of a school's expenses are dictated before the funds are even received.\textsuperscript{67} This is due to multiyear collective bargaining agreements over teachers' salaries as well as both state and federal stipulations attached to the funds that are given.\textsuperscript{68} This leaves school district administration with little discretion in their use of the funds that are allocated to them.\textsuperscript{69} This is an improper way to funding because it removes choice from the party who has the most knowledge and insight on where the funds should go, and instead dictates what the funds for.

Before the Local Control Funding Formula, additional funds were granted as Categorical Funds.\textsuperscript{70} There were many types of Categorical Funds in the form of various initiatives that the state deemed important and appropriate.\textsuperscript{71} State revenue would be allocated towards specific initiatives and as long as the school participated in that initiative, it would receive the funds.\textsuperscript{72} However, this resulted in state revenue being allocated to school districts through a multitude of channels where it became difficult to determine why some schools received additional funds while

\textsuperscript{66} Funding Formulas at 23.  
\textsuperscript{67} Id. at 10, supra note 1  
\textsuperscript{68} Id.  
\textsuperscript{69} Id.  
\textsuperscript{70} An Overview at 7.  
\textsuperscript{71} Id.  
\textsuperscript{72} Before LCFF
Improving Education Financing in California: Why the Local Control Funding Formula a Step In the Right Direction

others did not. The categorical funds were restrictive in nature and attached initiatives to each particular revenue program, which effectively removed from the school districts the ability to have control over funding that they were receiving.

The Local Control Funding Formula seeks to correct this by streamlining funding. In addition to providing additional funds to English Learners and Low Income Students, it narrowed the list of other initiatives that would also qualify for extra funding down to 13 broad categories. The school district may then have greater flexibility in how they spend the allocated funds and the state may have better ways to track which funds were allocated, and for what purposes. In addition, with a less confusing revenue stream, school districts are subject to more transparency and accountability over how they spend their funds.

Conclusion

“School funding has been, and continues to be, a Herculean task.”

California’s Local Control Funding Formula is a step in the right direction towards addressing equal funding in the Californian school districts. Although the act was just implemented January 2014, and is predicted to take eight years until fulfillment, it is the result of decades of research into the effects of funding on public school districts within the state. It is legislation that seeks to provide an efficient approach to creating funding for schools.

73 Id.
74 An Overview at 7.
75 Id.
76 Understanding
77 Id.
78 Id. at 132, supra note 1.
79 Understanding