

Executive Summary

How California pays for its schools affects how they function and how they perform. If funding only flows when districts make certain decisions, then those are the decisions that most likely will be made -- regardless of how they relate to educational needs and goals. If schools are held accountable principally for how dollars are spent, then that will be their focus rather than how much students learn.

California's system of paying for schools has grown increasingly complex in the past three decades -- and increasingly frustrating for those who desire an effective financing system. The complexity seems to have done little to help students succeed in the classroom. Educators are often thwarted and citizens baffled by a difficult-to-understand system. Uncounted resources are diverted to administering and tracking arcane formulas, and providing equity for students has become a bookkeeping exercise rather than an honest assessment of whose needs are not being met.

Crafting a financing system that marches in lockstep with educational goals for schools is not easy. But as the State edges closer to adopting uniform standards and assessments on the education side, it is critical that reforms occur to bring the financing side into alignment. The following findings and recommendations are designed to help the State reach that goal:

Finding 1: The present education funding system is convoluted -- driving up administrative costs, diverting attention from educational concerns and depriving the public of readily accessible, comparative information.

Money reaches districts, school campuses and individual classrooms through complex formulas that are difficult to understand and that are constantly manipulated by state policy makers, state bureaucrats, school administrators and outside consultants. The convoluted system is very difficult for the public to understand -- and therefore to trust and support. In addition, the system is expensive for the State to administer and oversee for fiscal accountability. The same is true for districts, whose decisions are sometimes driven by financial factors that have only a tenuous connection with educating children.

Recommendation 1: The Governor and the Legislature should redesign the education funding system to simplify formulas, redirect the focus to educational needs rather than process and ensure meaningful equity of educational opportunity.

California's education finance system is too complicated. It often acts as a stumbling block rather than facilitating the achievement of the goals of educators, policy makers and taxpayers. And the complexity has grown rather than diminished despite years of criticism and reform proposals by a variety of experts. Inertia, fear of the consequences of a new system and divergent political perspectives make it difficult to change the system. Clearly, an extraordinary and well-focused effort will be required to achieve any wholesale reform.

Establishing a venue for reform is the first hurdle policy makers should address. To focus on overall reform rather than current resources and individual problems, the reform effort should be kept separate from the annual budget cycle. A special joint legislative committee, charged with an agenda of reform issues and a time frame for negotiations, could supply the framework for building consensus -- or at least acquiescence -- among key stakeholders. A similar process was used successfully in 1996 to address the deregulation of electricity and introducing competition to energy markets.

Once reform discussions are under way, specific changes that policy makers should make include:

- Adopting a Whiteneck-Mockler-style model that provides school districts with equal basic grants plus proportionate funding for special needs and special costs.
- Changing the pupil count method to eliminate the need to track daily attendance and absence excuses, instead relying on enrollment figures -- as other states do -- and using other mechanisms to target truancy.
- Amending the Constitution to allow one-time educational expenses that are not built into the Proposition 98 base, as recommended by the California Constitution Revision Commission.
- Eliminating current basic aid payments to high-wealth districts by adhering to the Legislative Counsel opinion regarding ways to fulfill the State's constitutional obligation, as recommended by the Legislative Analyst's Office.
- As a short-term measure, until comprehensive financing reform can be enacted, consolidating categorical funding in line with recommendations by the Legislative Analyst.

Finding 2: The funding system for Special Education is out of step with mandated programs, available resources, student needs and common sense.

Many of the problems with California's education finance system are magnified in the Special Education portion of the system -- and this is true despite the fact that Special Education is segregated from the regular education system structurally and is based on a completely different approach to funding. For example:

- Just as in the regular segment of the system, the Special Education program is marked with funding inequities, on both a child-by-child and district-by-district basis. There is little rational basis for the differences.
- In addition, adequacy of funding -- an often-debated concern in the regular education program -- is a key issue in the Special Education program, where the costs of providing mandated services to children quickly outstrip the willingness of state and federal policy makers to allocate funds.
- Finally, both systems seek accountability by measuring inputs and auditing procedures rather than by measuring student results. This

is especially troubling in the Special Education system where the federal mandate is to meet the individual child's needs -- not to spend a certain amount of money on each student or to give them a certain set of services, but to provide them a meaningful education.

Recommendation 2: The Governor and the Legislature should redesign the Special Education funding system to achieve simplicity, equity and flexibility and to shift accountability to outcome.

Elements of both the tri-agency recommendation and the current reform proposal go far toward resolving problems with the current Special Education financing system. However, policy makers should be wary of continuing present inequitable patterns simply for the sake of obtaining the political consensus to move forward with reform. At some point, even if on a phased-in schedule, all Special Education children should have the equal opportunity to receive services regardless of the district they live in.

Recommendation 3: The Governor and the Legislature should ensure that primary responsibility for special-needs students rests in their home districts.

Money should not be routed directly to SELPAs if it is going to increase the already-existing tendency for districts to consider Special Education students someone else's problem. Districts should be able to purchase regionalized services from SELPAs, but any realignment of the financing system should not further divorce Special Education students from the general education population and structure. Parents should be assured of having single-point access at the home district for service, advice and complaint resolution.

Recommendation 4: The Governor and the Legislature should petition the federal government to live up to its original funding commitment -- and if it is unwilling to do so to consider realigning the Special Education mandate with fiscal realities.

Much of the tension and acrimony within the Special Education system comes from the irresolvable conflicts between funding shortfalls and legitimate demands for appropriate services. The existing system is not fair to educators, parents, students or taxpayers. Congress should be strongly urged to increase funding levels.

Any discussion of modifying the mandate to provide services to Special Education students needs to be handled with extreme sensitivity to the fact that -- prior to the enactment of the broad mandate -- schools often turned their backs on this population. They should be given no opportunity to do so again. But clarifying the mandate and bringing it in line with the slightly more narrow but still powerful protections of the Americans with Disabilities Act would give both schools and parents better guidelines for taking action.

Finding 3: Because there is no way to judge schools on academic results, the State focuses on fiscal accountability for process and inputs -- often to the detriment of educational efforts.

When school districts violate sound fiscal policy, California has a mechanism for taking over and bringing the operations back to financial health. But when districts repeatedly fail to produce the outcome that education is all about -- students with a solid base of knowledge and skills -- there is no remedy. The State's system instead focuses on accountability for process and inputs: Did the district provide the correct number of instructional minutes and school days? Were categorical funds spent on the proper services? Did the district comply with teacher-to-student ratios and administrator-to-teacher ratios? Since these are the questions by which they are judged, districts spend substantial time, energy and resources getting the answers right. Unfortunately, no research has indicated that these are the factors that improve student learning.

Recommendation 5: Once academic performance standards and assessment systems are in place, the Governor and the Legislature should ensure that the State's education accountability system shifts to outcomes.

Educators should not have to struggle to meet the demands of two accountability systems: the existing one that focuses on processes that are largely unrelated to academic achievement and the new one that will surely be the natural consequence of implementing statewide standards and tests. Instead, the State should take steps to make sure that fiscal accountability is focused on meaningful activities. These steps could include creating rewards -- such as incentive bonuses -- and sanctions -- including an academic bankruptcy process -- to encourage better focus on academic performance.

Finding 4: Despite 1,000 locally elected district boards and a professed preference for local control, California's schools are run by the State -- directly through mandates and indirectly through fiscal constraints.

The history of schools in California is one of local control, beginning in the early days before statehood when settlers pooled resources to hire a teacher for the one-room schoolhouse they had built as a community project. But court rulings, voter initiatives and legislative mandates have steadily pushed the State into controlling ever increasing portions of the education system. While dominance by the State in education fiscal matters has been seen as the best route to equity, many believe the shift from local to state control has eroded financial resources for schools, public support for the education system and meaningful accountability.

Recommendation 6: The Governor and the Legislature should create a local funding mechanism that provides districts with equal opportunities to raise revenues.

Communities should be able to demand responsiveness and accountability from their local school boards. They cannot as long as the boards can easily and legitimately point to the State as the source of funding shortfalls and specific mandates. Districts that are able to make a convincing case to their local voters should be allowed to raise revenues more easily to enhance their educational programs. If required, to ensure the equity provisions of *Serrano* are maintained, revenues should be limited and balanced by state grants to low-wealth districts, as suggested by the Legislative Analyst and others.

Recommendation 7: The Governor and the Legislature should empower school districts to operate independently as long as outcome standards are met.

Multiple top-down constraints on school districts have done little that can be demonstrated to improve educational performance. While ratios of teachers to students and teachers to administrators may be desirable standards, they should be implemented locally at the behest of voters rather than imposed by state mandates.

The pending initiative that would dictate a 95-5 percent split of funding between schools and district offices is one more example of a reform that focuses on inputs rather than outcomes and replaces local discretion with state control. State officials should accelerate the move to an outcome-based, academically focused accountability system to restore confidence

in the education system -- which in turn should discourage similar initiatives.

Once performance standards are in place, state officials should adopt a model that requires the State to set broad goals and allows local districts to use flexibility to meet the goals.

Finding 5: The allocation of education funding is driven by resource availability and political considerations rather than a determination of what is required to provide an adequate education.

When the State wants to build a highway, it plans, designs, accepts bids from contractors and then moves ahead with construction once enough funding is available. The cost depends on the product -- the length, width and type of road, the conditions that must be overcome to build it, the wages of the workers, etc.

But when it comes to education, the process is reversed. The State starts with an allocation and then tries to determine how much and what kind of education that will buy. Unfortunately, the product is ill-defined, methods can vary substantially and quality is uncertain. It should not be surprising, therefore, that there is never a sure answer to "how much is enough?"

Recommendation 8: The Governor and the Legislature should convene a process to build consensus on what elements constitute an adequate education environment in California.

Just as the Commission for the Establishment of Academic Content and Performance Standards is focused on learning content, a similar commission could consider issues such as class size, school year length, number of course offerings in high schools, building condition and ratios of types of services to students. These elements could then be used to develop standard school components, with coinciding expense estimates, to serve as a model for districts.