

School Finance Reform

A WEIGHTED PUPIL FORMULA FOR CALIFORNIA

For more than a decade, researchers, education leaders, policymakers, social justice advocates and business/community leaders have criticized California's K-12 school finance system as irrational, inequitable, too complicated, too highly centralized, and inefficient at allocating resources.

The same groups also largely agreed, five years ago, that the amount of funding for K-12 was inadequate to achieve California's goals, particularly for those students with the highest needs. Since the start of the current recession, that concern has heightened as schools have suffered funding cuts of about 15%.

In January 2012 Governor Jerry Brown proposed a major change to the state's system for funding K-12 school districts. As part of his May Budget Revision, he reinforced his commitment to that goal while amending

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COVERED IN THIS BRIEF:

- criticisms of California's current school funding system;
- the basic principles behind a weighted pupil funding formula;
- a summary of the governor's most recent proposal; and
- political and practical issues related to the proposal.

the proposal itself, largely in response to concerns from the education community.

As most recently amended, his proposal for a "weighted pupil funding formula" would provide a uniform base amount for K-12 students—adjusted by grade spans—plus extra funding based on student needs. In principle, the proposal is consistent with several past recommendations for simplifying and rationalizing the state's approach to school district funding. It also reflects the governor's ongoing push to give more control and flexibility to local levels of government. This proposal would set up a new system for distributing state monies to schools, to be phased in at the same time that state revenues are projected to increase. It is not, however, predicated on the level of additional funding hoped for just a few years ago.

The Current School Finance System: Irrational, Complex and Ineffective

The foundation of California's school finance structure is its revenue limit system, which sets a base funding level for each school district. The per-pupil amounts were intended to be roughly equal for each of the state's three flavors of school districts—elementary, unified and high school—with some additional funding for the smallest districts.

A variety of adjustments to these base revenue limits over the years have created wide variations in the amount each district receives. For example, at the low end in 2010-11 were elementary districts with total revenue limit funding of about \$4,750 per pupil. At the upper end, some high school districts had revenue limit funding above \$7,600.*

No clear rationale explains these variations and they are based on extraordinarily complicated calculations that often seem to defy all logic.

On top of these uneven foundations are layers of "categorical programs" created over the last three decades to support various initiatives favored by state lawmakers. These programs represent about a third of state funding but their distribution is uneven and often based on historical conditions that no longer exist. Many of these funds were accompanied by regulations regarding their use or provided as incentives for operating specific programs. This situation has been central to critics' views that the state funding system creates ineffective and unnecessary constraints for local education leaders.

In 2008-09, the state temporarily removed the spending requirements attached to about 40 of these categorical programs but did nothing to change the allocation

* Ed-Data Partnership website financial comparison reports for 2010-11, accessed April 16, 2012. This does not account for Basic Aid districts, which generally but not always have revenue limit funding above the \$7,600 figure.

patterns. So while local flexibility has increased, the fairness of the funding distribution has become more susceptible to criticism. That policy of categorical flexibility is due to sunset in 2015. Most observers agree that reinstatement of the previous program requirements would be impossible and that state leaders must soon decide how to allocate these funds.

Weighted Pupil Funding—Not a New Concept

Since 2000, the idea of a weighted pupil formula has repeatedly been suggested as the most effective way for California to simplify its funding system and make it more equitable. Both a “Master Plan for Education” supported by Democratic lawmakers in 2002 and a report from Republican Governor Arnold Schwarzenegger’s Committee on Education Excellence in 2007 made this recommendation. (See the box for more on these recommendations.)

Despite general concurrence that the current system is not defensible and agreement among many stakeholders that a weighted pupil formula would be an improvement,

the finance system has changed very little. The objections raised by critics have included:

- Losing favored programs such as K-3 class size reduction and partnership academies;
- A lack of confidence that local school districts would use the funds that follow disadvantaged students to provide services for those students;
- Concerns about the extent to which differences in district circumstances, not just student characteristics, should drive the allocation formula; and
- Worries about winners and losers in a redistribution scheme, particularly in recent times when total funding for districts has been seriously reduced.

While the concept of a weighted student formula has confronted political and economic obstacles in California, it has been standard practice in some states for decades. Texas, which like California has a huge K-12 system with about 1,000 school districts, provides an interesting example of how the various principles of such a system can play out (see the box).

Weighted Student Formula in Texas

Texas adopted its Weighted-Student-Formula for school district funding 28 years ago.

The state’s calculation of K-12 education funding starts with a basic allotment that is adjusted for local costs, including regional differences in labor costs and extra costs based on district size.

Districts receive extra funds for students who participate in various programs.

The programs include:

- special education,
- bilingual education
- compensatory education,
- career and technology programs,
- pregnancy related programs, and
- gifted and talented.

The state requires that a certain amount be spent on direct services, with consequences if a district does not do so. It has accountability mechanisms for tracking how districts allocate their funds and for identifying and investigating problem districts based on either financial or instructional issues.

Local districts can adopt a higher property tax rate but the state sets a cap on the “enrichment tax rate” and also equalizes the property tax contribution within the foundation program, recapturing some local property taxes raised by wealthier districts.

Previous Recommendations for a Weighted Pupil Formula

2002: the “Master Plan for Education” called for development of a new funding system that would include:

- A base level of adequate funding;
- A “limited set” of adjustments based on extra costs in certain locations in the state;
- Block grants to districts based on student needs, including special education, English learners enrolled in California schools for less than five years, and low-income students; and
- A provision for “initiative” grants of limited duration to pilot new programs or meet immediate, temporary needs.

2007: the Governor’s Committee on Education Excellence recommended phasing in a new “student-centered” funding model that would:

- Provide a base level of funding for every student;
- Provide significant additional resources for students who need the most help, augmenting the base by 40% for those from low-income families and by 20% for English learners; and
- Consolidate most existing categorical programs into this new student-centered funding model.

Governor Brown’s 2012 Proposal

Governor Brown’s entry into California’s school finance reform conversation attempts to reshape the fundamentals of how the state funds its schools. It creates a system of per-pupil grants that would take the place of the current revenue limit funding system and most state categorical funding streams. It also makes the funding flexible, enabling school districts to spend it for any educational purpose. The basic elements of the funding system Brown has proposed are straight forward:

- Set a per-pupil funding amount for students, adjusted by grade-span, as the base grant;
- Create a weighting factor that would provide an extra, supplemental grant to districts based on each low-income student or English Learner they serve, with flexibility in how those funds are spent; and
- Increase the supplemental funding with a concentration grant for districts where more than 50% of students are from those groups.

Using these components, the state would calculate a total WPF amount for each district. This change in the funding formula would be phased in. In Year 1 of the implementation (presumably 2012-13), almost all of a district's state funding would be based on the current system. The proposal is for a minor change of just 5% in the distribution of state funding the first year and an assurance that, for 2012-13 only, no district will get a reduced amount from the state. The percentage of total state funding allocated based on the WPF would increase in each subsequent year until the new system is fully implemented in 2018-19. (See the chart on the right.)

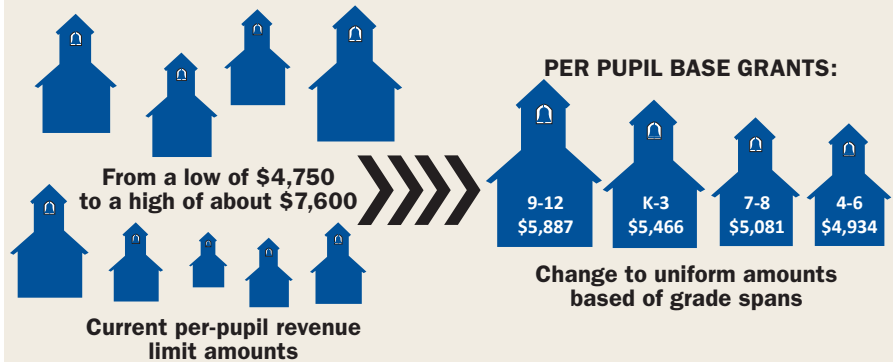
The proposed funding system would reallocate the majority of funds counted toward the state's Proposition 98 minimum K-12 funding guarantee. However, several existing categorical programs are not included. For two programs—Targeted Instructional Improvement Grants, and Home-to-School Transportation—the current allocations to districts would continue but without any requirements for how the funds are spent. For a remaining set of programs, the largest of which is Special Education, both funding and program requirements would remain the same.

The plan also leaves in place:

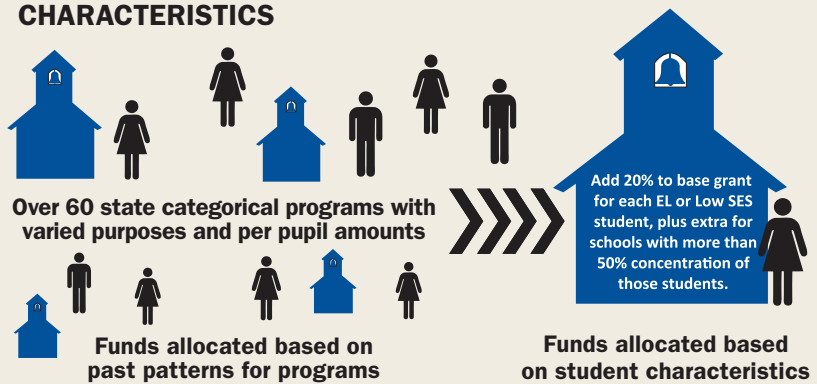
- current allocations of federal funds, most of which target disadvantaged students;
- local miscellaneous revenues that districts generate locally; and
- excess local property tax revenues when they exceed a district's funding formula allocation (these "basic aid" districts would likely receive reduced state funding in the future).

THE PRINCIPLES FOR A NEW FUNDING SYSTEM UNDER THE GOVERNOR'S PLAN

MOVE FROM CURRENT VARIATIONS IN REVENUE LIMIT FUNDING TO UNIFORM PER-PUPIL AMOUNTS

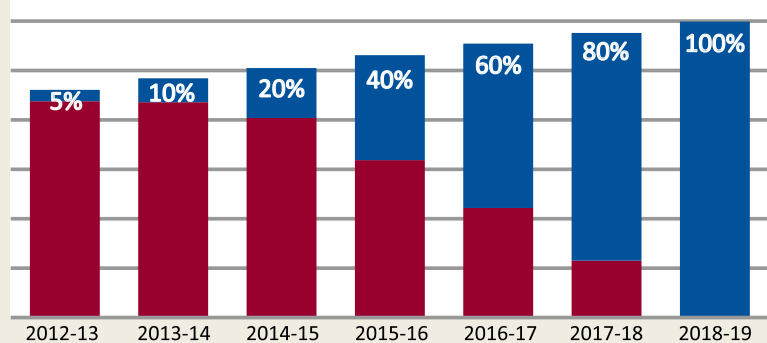


CONSOLIDATE MOST* STATE CATEGORICAL FUNDING STREAMS AND DISTRIBUTE BASED ON STUDENT CHARACTERISTICS



PHASE IN THE NEW FORMULA BETWEEN 2012-13 AND 2018-19 AS EDUCATION FUNDS INCREASE

Phase in schedule for Weighted Pupil Formula Portion of K-12 Funding



■ Amount allocated using WPF ■ Amount allocated using current formulas

* The state categorical programs excluded from the formula include Targeted Instructional Improvement Grants, Home-to-School Transportation, Special Education, School Nutrition, After-School Programs funded by Proposition 49, Quality Education Investment Act (QEIA), pre-school, and Necessary Small Schools.

Revised Amounts, Weights, and Phase-in Process Reflect Advocates' Concerns

The governor's initial proposal included specific dollar amounts and weights, which were substantially adjusted in his May Revision.

The revised proposal:

- puts additional funding into the base formula and lowers the extra amount based on student characteristics;
- sets different base funding amounts by grade level; and
- excludes two large categorical funding streams from the plan.

The current proposal is also more responsive to the fact that school districts have already weathered four consecutive years of budget cuts. Along with adding one more year to the original schedule for phasing in the new funding model, it conditions the full implementation on an increase in state funding for K-12 education.

Higher base amounts, adjusted by grade level

The May proposal sets higher amounts for older students, similar to the current charter school funding model. It also uses the funds currently set aside for K-3 class size reduction to augment the base grant for those youngest students, but without any class size requirements. The resulting per-pupil amounts, which would form "base grants" for districts and charter schools, are as follows:

- For students in grades K-3: \$5,466
- For students in grades 4-6: \$4,934
- For students in grades 7-8: \$5,081
- For students in grades 9-12: \$5,887

Smaller augmentations for student characteristics

The proposed weight for disadvantaged students is 20%. In other words, when the system is fully implemented in 2018-19, a district would receive a "supplemental grant" of 20% above the base grant amount for each student identified as either an English learner or low-income. Students who fit both categories would only be counted once for this funding.

The proposal also includes "concentration grants" that would give extra funding to schools where more than half of students

are in these identified populations, up to an additional 20%. In a school with 100% disadvantaged students, the per-pupil funding would be 140% of the base funding amount. For example, if the base grant were \$6,000 per pupil, that school would receive \$8,400 per pupil.

County offices of education, beginning in 2013-14, would review school districts' counts of EL and low-income students to ensure the data is collected and reported accurately. Eligibility for free/reduced price meals would be the basis for the low income determination.

Full implementation conditioned on additional funding decisions

In normal budget years, school districts' revenue limit allocations are adjusted annually based on a cost of living adjustment (COLA). In years when that does not occur, the state accrues a "revenue limit deficit factor" which promises districts the shortfall will be repaid. Because of funding reductions since 2008-09, the state would need to increase its revenue limit funding by about 20% to eliminate this deficit factor under the current system. The governor's original WPF proposal ignored this situation, generating a negative reaction to the entire plan among many school district officials.

The revised proposal promises that this deficit factor would be restored as the new formula is phased in. It also would freeze the implementation of the formula at 80% of school funding if that restoration does not occur. These actions would ensure that the total funding for base grants will be equal to or greater than current revenue limit funds before the new funding system is fully implemented.

In another nod to educators' concerns about funding adequacy, the 2012-13 implementation of the formula will not proceed if the governor's November ballot initial is defeated and Proposition 98 funding for K-12 education is reduced as a result. Going forward, the implementation would be delayed any year that the Proposition 98 funding for K-12 did not meet predetermined growth thresholds.

Issues Raised in Response to the Governor's Proposal

California's current school finance system has virtually no defenders. Nevertheless, powerful interests opposed to various details in any given reform proposal have largely succeeded in preserving the status quo for more than a decade. The governor's January proposal sought to avoid this dilemma by presenting a very simple, straightforward approach to finance reform.

The May version added complexity, largely in order to respond to concerns from local education leaders. Those adjustments did not change the fundamental principles behind the proposal and they left several additional issues unresolved.

The basics of the formula and adjustments

As the Texas example cited above indicates, some states make adjustments in a weighted student formula based on both the needs of students and differential district costs for providing a basic level of service. In identifying just two areas of student need—poverty and English learner status—Governor Brown's proposal sets aside the issue of Special Education, at least for now.

The proposal also almost completely avoided adjustments based on district costs, such as regional labor costs. It does retain the state's current additional support for "necessary small schools" that are both very small and geographically isolated.

How to assure funds are well spent

A fundamental tension exists in California's school governance system. On one side is the call for local flexibility so districts and schools can create educational programs that meet the needs of their particular communities. On the other side is the state's interest and responsibility to make sure that all children are treated fairly and receive an appropriate education.

The governor's proposal departs from the state's longstanding practice of using funding to incentivize and control district behaviors. This is consistent with both the theory behind the state's school accountability system and his commitment to increased local control.

Critics remain skeptical that local district officials will act in the best interests of students, particularly in large urban districts. They also say that the state's current accountability systems are not sufficiently effective to prevent or identify malfeasance. Nor will they protect the state's most vulnerable children.

The May WPF proposal acknowledges this concern by making implementation of the formula in 2013-14 contingent on additions to the state's accountability framework. It lists some examples of indicators other than test scores, and states that these will be linked to incentive funding.

The governor has separately expressed strong interest in improving the state's accountability systems, the State Board of Education is taking up the subject, and the Legislature is considering a bill to revamp the Academic Performance Index at the heart of the state's current accountability system. In addition, the transition to Common Core State Standards and a new testing system make changes in academic accountability inevitable.

Other suggestions for addressing this concern place less confidence in an accountability system per se. Creating a "block grant" structure that earmarks some funds for specific functions, such as professional development or technology, is one possibility. Another would be to increase the transparency regarding how districts allocate funds to schools and perhaps ultimately institute a weighted student formula down to the school level. A number of capacity issues would need to be addressed in order for the latter idea to be effectively implemented, but it is currently a concept of high interest and the subject of ongoing research and pilot projects.

Timing issues

Some local education leaders and policy-makers have argued that the state ought to provide more funding for education before taking on this reform in order to make sure no districts actually lose funding in the process. Administration officials and some researchers respond that doing so would only serve to perpetuate the current system. They say it is preferable to change the system now

and then apply future increases equally to the new, uniform per-pupil base amount.

The timing also clearly interacts with the decisions voters will make in November regarding additional funding for education. The newly revised proposal says that the failure of the governor's tax initiative would delay but not prevent full implementation of the weighted pupil formula. A separate initiative—sponsored by Molly Munger and called *Our Children, Our Future*—would not interfere with the WPF system, but would add an additional funding stream accompanied by a new system for the public reporting of school expenditures down to the school level.

A Long Road From Policy to Implementation

The governor's proposal—if it is passed by the Legislature and becomes law—takes a first crucial step toward a fairer, more rational, and more transparent K-12 school finance system in California. It is a long way, however, from this policy proposal to a fully-functioning weighted pupil funding system that meets all of those objectives. Its full implementation will first depend on the state having more funds available for education and on the creation of a more robust accountability system to assure the funds generated by the neediest students are in fact used for their benefit.

Assuming those things occur, it is almost inevitable that other issues will emerge as the state moves from a theory about how this policy could work to the realities of its impact on almost 1,000 school districts of dramatically different composition, on schools themselves including charter schools, and ultimately on the quality of education for more than six million California school children.



Policy Analysis for California Education (PACE) is an independent, non-partisan research center based at Stanford University, the University of California Berkeley, and the University of Southern California. PACE seeks to define and sustain a long-term strategy for comprehensive policy reform and continuous improvement in performance at all levels of California's education system, from early childhood to postsecondary education and training. To accomplish this goal, PACE bridges the gap between research and policy, working with scholars from California's leading universities and with state and local policy-makers to increase the impact of academic research on educational policy in California.

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