

# School Finance

## A California Perspective

Third Edition



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2000623

# **SCHOOL FINANCE: A CALIFORNIA PERSPECTIVE**

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**KENDALL/HUNT PUBLISHING COMPANY**  
4050 Westmark Drive Dubuque, Iowa 52002

This edition has been printed directly from camera-ready copy.

Edited by Lillian Biermann Wehmeyer

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ISBN 0-8403-9754-2

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Printed in the United States of America

10 9 8 7 6 5 4 3 2

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## INTRODUCTION

California school finance has the same reputation as quantum physics—very complex. The objective of this book is to illuminate a path through the thicket of financial terms and present the subject in a straightforward way.

California school finance has endured tremendous upheaval in the last two decades, and meeting the educational needs of an increasing and diverse student population will remain a major challenge for the citizens of this state. Many school districts in California, particularly those in urban populations and those declining in enrollment, must constantly reduce some programs to meet increasing demands in others. Districts continually seek expanded resources to balance the budget and maintain a viable educational program. Among the causes of this never-ending quest are collective bargaining settlements, need for new facilities, and deteriorating assets.

For many years California depended upon the property tax to finance schools. Districts in neighboring communities had been spending unequal amounts per student to accomplish similar educational goals. However, in a landmark decision that reversed this traditional means of state school financing, the 1971 *Serrano* decision declared the property tax unconstitutional as a means of supporting public schools (*Serrano v. Priest*, upheld 18 C.3d 728 [1976]). The court ruled that neither a child's place of residence nor the wealth of a community should determine financial support for the educational program.

Beginning in 1972 several school bills were passed to implement *Serrano*, and subsequently to recover the dollars lost in the wake of Proposition 13 (1978). Nevertheless, in 1992 the per-pupil expenditure in California was less than the amount spent per child in 35 states, including New York, Illinois, Michigan, Massachusetts, and Pennsylvania. What has emerged in California school finance is strong state control of funds, and consequently of educational programs. Local school boards find themselves without means to raise revenue or to build facilities. They have become almost totally dependent upon the action in Sacramento.

The information presented in this book is as up-to-date as possible. Nevertheless, because school finance is continually evolving, any book on this topic will inevitably contain some inaccuracies even before it can be printed. Therefore, the reader will find it necessary to keep track of developments ranging from local bond elections to state and federal legislation and court decisions affecting local school districts.

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## SCHOOL FINANCE--CALIFORNIA

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Topics included in this text are a history of school finance, the evolving environment of California education, income and expenditure analysis, and school facility laws. Other sections discuss budget development, projection of school district revenues and expenditures, and financial reporting. Also addressed are the role of the chief business official (CBO), maintenance and operations, school transportation, food services, special education, program budgeting, and a glossary of school finance terms.

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## CHAPTER 1

### FINANCING EDUCATION

#### IN AN ATMOSPHERE OF CHANGE

Anyone who has studied educational debates in the press, attended a school board meeting, or listened to a discussion among educators knows there is little consensus on the ends of education or how to achieve them. Compounding this issue is the realization that education is "big business," with one person in five either attending or employed by a secondary or elementary school.

Nevertheless, certain broad educational goals may be agreed upon by most citizens. For example, many would agree that education should prepare the student to do meaningful work and to become a productive member of society in the United States. Beyond this obvious agreement, however, lies a host of debates: individual versus group goals, religious versus secular emphases, vocational versus general skills, and the most critical points toward which to allocate precious resources to achieve the greatest benefit.

#### AMERICA 2000

One attempt to condense and agree upon educational goals for the nation is the collaborative effort of former President Bush and the nation's governors, chaired by Bush's successor, Bill Clinton. This project has been known as "America 2000." Six goals were originally developed, with more to be added to supplement these first directions. Politicians and educators do not always agree, but this is one attempt that has met with some success. The original six goals, which form an initial national agenda, are:

- All students will start school ready to learn.
- The high school graduation rate will be at least 90 percent.
- Students will leave grades four, eight, and twelve having demonstrated competency in challenging subject matter, and all students will be prepared for responsible citizenship, future learning, and productive employment.

- U.S. students will be first in the world in math and science.
- All American adults will be literate, able to compete in a global economy, and able to exercise responsible citizenship.
- Every school will have an environment conducive to learning and free of drugs and violence.

The Goals 2000: Educate America Act, passed in spring, 1994, calls for two additions: one on parental involvement and the other on teacher professional development. Nearly ten million dollars have been allocated to California for the planning year.

#### **DEBATES AND DILEMMAS IN SCHOOL FINANCE**

Despite the consensus suggested by adoption and funding of Goals 2000 for American education, many issues remain unresolved. For example, debates have raged for years about patterns of school district organization. How should districts and schools be organized to promote equality of educational outcomes? Should the desires of the community take precedence over those of the district, state, or nation in governance of the local school? How do concerns for competition in the global economy or pressures for school choice impact the future of schooling?

The two purposes of this chapter are to raise issues that frame the major educational dilemmas of the mid-90s and to propose elements of policy on which we seem to agree. The elements on which we agree center around the value of education for both the individual and the public. Those issues on which we lack consensus relate to linking resources to outcomes and a funding structure that will best deliver those resources. These provocative issues may provide incentives for discussing the great issues in educational finance.

#### **WIDELY ACCEPTED CONCEPTS**

Even though competing social values cloud issues of school finance, several concepts are widely accepted. These concepts include:

- the private and the public good of education
- local autonomy
- fiscal federalism
- funding for special needs
- equality, and
- efficiency.



PRIVATE AND PUBLIC GOOD OF EDUCATION. There are many reasons why education is regarded as a public good. The main argument involves the benefit to society of an educated populace. An educated citizenry is better able to cast informed votes, manage personal resources, and benefit from lifelong learning. The return to society from an educated populace was thoroughly discussed in 1776 by Adam Smith in *The Wealth of Nations*, and developed by Charles Benson in 1978.

Closely tied to the argument of the value of an educated populace are the consequences of an uneducated citizenry. The major costs of welfare are well documented. In addition, studies have compared the cost of one year of prison with the cost of one year of preschool—a shocking illustration of the price of failure to fund education, especially at the pre-kindergarten level. Of course, it must be acknowledged that a host of other factors are related to crime and unemployment, including individual characteristics, early upbringing, gender, race, and age.

Turning to education as a private good, many studies have illustrated the benefit of education over a lifetime of earnings. Furthermore, state courts have upheld the individual's right to an education. Since the individual acquires benefits from an education, a debate arises as to who should pay for this benefit. The nation, the state, the local community, employers, and taxpayers—all derive benefits from education. Even if it is agreed that all should share in the burden of financing education, debate centers on how the burden should be distributed.

LOCAL AUTONOMY. A traditional approach to budgeting has been to make salary and fringe benefit decisions at the central office, allocating a limited amount to the local site for instructional supplies and supplementary services. This approach has been prevalent because the district retains the capacity to track personnel expenditures—the highest line item in the budget.

However, decentralization of school district leadership has emerged as a major thrust in the 1990s as public schools seek to respond to negative public perceptions. Urban school districts, which have languished in search of superintendents to lead them, are adopting local autonomy as a way to increase school productivity. The concept that underlies school-based management is that decisions are typically based on better information when they are made close to the level at which they are implemented.

Even though the purpose of local autonomy is to delegate more power to the local school, site-based management has many variations. The degree to which decentralization and local autonomy are instituted in each district varies. Most approaches to decentralization involve empowerment of groups that include parents, teachers, and—at the secondary level—students. "Site-based management" and its variants, the buzzwords of the 90s, form the subject of multitudinous conferences throughout the state.