

Getting From Facts to Policy: An Education Policy Convening
October 19, 2007, Sacramento California

Funding K-12 Education Investments Under Proposition 98

Required Information

Name of Individuals and Organization

Robert D. Miyashiro, Associate Vice President
School Services of California, Inc.

Topic

School Finance—Funding Priorities and Proposition 98

Contact Information

Contact: Robert D. Miyashiro
Address: 1121 L Street, Suite 1060
Sacramento, CA 95814
Phone: (916) 446-7517
e-mail: robertm@sscal.com

Problem Statement

According to the study authored by Jon Sonstelie, *Aligning School Finance with Academic Standards*, the state may have to spend up to 40% more on K-12 education to raise student performance to reach the goal of 800 on the Academic Performance Index (API). Which specific education programs should be expanded and where will this money come from? Some have suggested that funding under Proposition 98 will be insufficient and that additional revenues will be necessary.

However, according to the Legislative Analyst's Office (LAO), funding under Proposition 98 could provide billions of dollars in additional ongoing revenues when the minimum funding guarantee is determined by Test 1 (a fixed percentage of the General Fund revenues, plus property taxes), as opposed to Test 2 or Test 3, both of which reflect changes in workload and inflation. This shift to Test 1 could occur as early as 2010-11. The shift to Test 1 provides a unique opportunity for funding augmentations because the minimum guarantee will then be decoupled from workload. In other words, significant funding above baseline costs would be available in a Test 1 year.

This paper proposes to join the Sonstelie research with the forecast of the LAO to recommend a specific schedule of augmentations to K-12 education. The paper presents the implied "rate of return" on specific budget augmentations presented in the Sonstelie study, expands these costs statewide, and adjusts them for inflation. The paper then concludes by recommending K-12 program enhancements based on the priorities derived from the Sonstelie research and the availability of new revenues under Proposition 98.

Funding K-12 Education Investments under Proposition 98

Much has been written about the needs of California's K-12 education system and the current finance system under which it operates. In April 2007, 23 studies coordinated through Stanford University and funded by four major foundations were unveiled. Taken together, these studies concluded that significant new resources would be needed to bring student achievement up to the level the state has set as its standard. In addition, the studies identified numerous flaws in the current school finance system, suggesting that major structural reforms are needed.

For the most part, however, these papers avoided offering specific prescriptions on how to change the current system or where additional resources should be targeted. As a result, state policy makers do not have a detailed agenda for action. This paper, drawing from one of the papers, makes a case for specific program augmentations to promote students' academic performance.

Targeting Additional State Resources

The study by Jon Sonstelie, *Aligning School Finance with Academic Standards*, concluded that an estimated 40% increase in funding would be needed to boost student achievement to the level established by the state as defining an adequate education. The study relied upon the professional judgment of 567 randomly selected public school teachers, principals, and superintendents to determine (1) the resources required to bring school test scores up to 800 on the state's Academic Performance Index (API), (2) where those resources should be targeted, and (3) how much should be allocated to each of the expenditure categories.

The results of these budget simulations provide detailed insight into how best to schedule budget augmentations for elementary, middle, and high schools. They also reveal the areas of school site spending that should receive the greatest increase in funding and those areas that are relatively well funded currently. The Sonstelie study, however, did not evaluate school district costs, such as administration, transportation, maintenance, and operations, nor did it consider the costs of special education.

Table 1. Funding Priority Targets (% increase in spending)

Staff/Programs	Elementary School	Middle School	High School
Staff			
Teachers	14.9%	27.4%	24.2%
Administrators	22.8%	19.5%	37.7%
Support Staff	168.7%	40.5%	75.0%
Professional Development			
Academic Coaches	600.0%	106.7%	173.3%
Collaborative Time	45.7%	173.2%	135.5%
Student Programs	170.0%	171.3%	99.8%

Table 1 shows the percentage increase in funding recommended by the survey respondents for each of the expenditure categories for elementary, middle, and high schools. In total, these changes yield an increase in spending of roughly 40% for each school type.

The budget simulations reveal significant differences in resource allocations both among the three school types and among the various expenditure categories. For elementary schools, the budget simulations suggest that resource augmentations first should be targeted to support staff, specifically instructional aids, as opposed to teachers and administrators. The study suggested that school site expenditures for instructional aides should increase by more than 360%, with other support staff increasing in the range of 100% to 150%. For middle and high schools, support staff augmentations also exceeded recommended increases for teachers and administrators; however, the magnitude of these differences were not as great as for elementary schools.

Table 1 also shows that professional development is an area that should be expanded relative to other expenditure categories. For elementary and high schools, academic coaches are identified as warranting significant augmentations, while increasing collaborative time for middle school teachers is the preferred method for advancing professional development.

Finally, the survey respondents would increase spending on various student programs by roughly 170% for elementary and middle schools and by almost 100% for high schools. This category includes preschool, after-school tutoring, summer school, longer school year, longer school day, full-day kindergarten, and computers for instructions. The one clear pattern that emerges from the data is the need to expand after-school tutoring for all grade levels. For elementary schools, the budget simulations yield a 125% increase in spending for after-school tutoring; for middle schools, a 140% increase; and for high schools, a 143% increase. An expansion of this program above all others appears to be the most effective means of serving students whose academic performance may be lagging.

Table 2 displays the statewide costs of these funding priorities, based on the Sonstelie research. That study used actual expenditure data for 2003-04 for each survey respondent. The results in Table 2 have been converted from school site data to statewide costs using an enrollment conversion factor for the span of grades covered by each type of school. In addition, the expenditure data have been adjusted for inflation using both the actual and projected statutory cost-of-living adjustments (COLAs) through 2010-11. The 2010-11 fiscal year was selected because significant state funding increases are projected to occur in that year under Proposition 98 (discussed below).

Table 2 shows that, if all of the components of the education program were funded according to the collective recommendations of the Sonstelie survey respondents, a total of almost \$12 billion in ongoing funding would be needed to bring California students up to the academic standards the state has established. Even under conditions of robust economic growth, an augmentation to the education budget of this magnitude cannot be achieved in a single year under the state's current tax structure. However, the near-term outlook for Proposition 98 provides an opportunity for significant program expansions.

Table 2. Statewide Costs of Funding Priorities (2010-11 inflation-adjusted costs in millions)

Staff/Programs	Elementary School	Middle School	High School
Staff			
Teachers	\$1,343	\$1,246	\$1,504
Administrators	311	159	357
Support Staff	1,753	475	884
Professional Development			
Academic Coaches	508	216	247
Collaborative Time	137	200	108
Student Programs	1,181	771	557
TOTALS	\$5,233	\$3,067	\$3,657

Source of Additional State Resources

The state’s minimum funding contribution to both K-12 education and the community colleges is established in the State Constitution through Proposition 98. Enacted by state voters in November 1988, this constitutional provision sets the state’s minimum funding requirement for K-14 education from one year to the next, based on several formulas.

With the exception of the initial year of implementation, Proposition 98 funding has been determined by adjusting prior-year expenditures for workload changes and inflation, as determined by either “Test 2” (ADA and per capita personal income) or “Test 3” (ADA and per capita General Fund revenues). The common denominator in both of these formulas is that year-to-year funding adjustments reflect workload changes, as measured by ADA. In the long run, both of these tests merely keep overall K-14 funding on pace with increases in workload and inflation. They do not provide any significant revenue increases to expand the state’s investment in education.

This situation changes, however, when funding is determined by “Test 1.” Under this formula, the minimum funding guarantee is no longer determined by a change in workload and inflation. Instead, the state is required to allocated a fixed percentage of the General Fund tax revenue to K-14 education, regardless of any change in ADA. In addition, K-14 education is entitled to receive all of the expected property tax revenue that it receives when either “Test 2” or “Test 3” is operative. Moreover, these local revenues do not offset the state’s General Fund allocation.

In large measure, the conditions under which “Test 1” would apply have not materialized because of ongoing growth in K-12 enrollment. This situation, however, has been changing over the current decade, with statewide enrollment now falling from year to year. In fact, the LAO projects that “Test 1” will become operative in 2010-11, providing roughly \$2.2 billion in ongoing funding above the baseline requirements for public schools. In other words, under a “Test 1” year, the costs of funding all K-12 and community college enrollment, adjusted for inflation, would be fully covered, leaving an additional \$2.2 billion for program augmentations. The LAO also projects that an additional \$2 billion above baseline requirements would be available in 2011-12.

FUNDING K-12 EDUCATION INVESTMENTS UNDER PROPOSITION 98

OCTOBER 19, 2007

The LAO report that identified these added revenues was issued in November 2006 and an updated forecast is expected in November 2007. While a revised forecast may identify a later year in which “Test 1” becomes operative, the broader economic and demographic trends are expected to continue. Thus, when education funding under Proposition 98 is determined by “Test 1,” multi-billion dollar augmentations to the state’s K-12 and community college systems can be expected. Moreover, these augmentations will become a permanent part of the Proposition 98 funding base and will not be lost when the enrollment picture brightens and the minimum funding guarantee is again driven by “Test 2” or “Test 3.” This near-term outlook sets up a unique opportunity to provide a significant and ongoing investment in K-12 education.

Schedule for Program Augmentations

If we assume that the LAO’s forecast is largely accurate, even though the timing of the increases may be delayed, and if we assume that the findings and relative investment needs identified in Sonstelie’s study reflect the best judgment of education professionals in California, then we can present a series of recommendations for specific program augmentations. In other words, these two reports, when taken together, provide a general prescription on when the state can make significant investments in K-12 education, at what level these investments can be made, and on which educational programs and staff they should be targeted. The following tables present recommended areas of staffing and program augmentations and the projected statewide costs of these increases, based on the specified year of implementation.

Table 3. 2010-11 Elementary School Investments (dollars in millions)

Elementary Schools	Statewide Costs
Administration	
Assistant Principals	\$171
Support Staff	
Instructional Aids	862
Nurses	148
Librarians	212
Technology Support Staff	292
Professional Development	
Academic Coaches	508
Total	\$2,192

Table 4a. 2011-12 Elementary School Investments (dollars in millions)

Elementary Schools	Statewide Costs
Student Programs	
Preschool	\$30
After-school Tutoring	237
Support Staff	
Security Officers	23
Community Liaisons	68
Total	\$359

Table 4b. 2011-12 Middle School Investments (dollars in millions)

Middle Schools	Statewide Costs
Professional Development	
Academic Coaches	\$216
Collaborative Time	200
Student Programs	
After-school Tutoring	257
Total	\$672

Table 4c. 2011-12 High School Investments (dollars in millions)

High Schools	Statewide Costs
Support Staff	
Instructional Aides	\$353
Community Liaisons	56
Professional Development	
Academic Coaches	247
Collaborative Time	108
Student Programs	
After-school Tutoring	212
Total	\$976

We acknowledge that an additional consideration of state budgeting is targeting augmentations to specific types of schools and school districts. The Sonstelie study explored this question and offered as a solution a weighted student formula that would focus additional resources toward districts that face higher-than-average labor market costs and/or whose students come from low income families. Moreover, other research has shown that the racial/ethnic makeup of a school also correlates to student performance, even after adjusting for income differences, thus warranting an incremental funding adjustment as well. Given these relationships, any allocation of additional state resources should consider an effective means of targeting these funds to most effectively improve student performance statewide. The specifics of how this should be done, however, are beyond the scope of this paper.

References

Sonstelie, Jon, *Aligning School Finance with Academic Standards: A Weighted Student Formula Based on a Survey of Practitioners*, Institute for Research on Education Policy & Practice, Stanford University, California, April 2007.

Hill, Elizabeth G., Legislative Analyst's Office, *California's Fiscal Outlook, LAO Projections 2006-07 Through 2011-12*, pages 29-33, Sacramento, California, November 2006.

Goldfinger, Paul M. and Jannelle Kubinec, *Revenues and Revenue Limits*, pages 19-27, School Services of California, Sacramento, California, 2007.