

COMMENTARY

# Governor's Funding Formula Is a More Equitable, Efficient System

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I'd like to follow up on my series on school finance by discussing a few specific roadblocks to the LCFF. It is probably clear by now that I generally support Brown's proposal. While it is far from perfect, I also believe it is much better than any of the alternatives (with perhaps the worst option being doing nothing). This is my personal opinion, based on my own research on the problems with the current system, as well as my reading of the research on school finance issues that I have tried to summarize in this series. From my perspective, the two biggest problems with California's current system of school finance are 1) the revenue allocations are inequitable and have no connection to cost or need, and 2) having categorical restrictions on such a large share of the funding creates inefficiencies that prevent districts from achieving the best outcomes for their students. Brown's proposal is the only one on the table that addresses both of these problems head on.

Let me be clear: When I say that these are the two biggest problems with the system, I am NOT saying that the system does not have any other problems – for example, there are plenty of people (researchers and politicians alike) who would say the biggest problem is that funding levels are too low. But even if funding levels were twice, or three times, as high as they are now, the system would still be inequitable and inefficient and outcomes would not be maximized; with more money, one would certainly hope outcomes would be BETTER but without changing the system, we would still not be getting the BEST outcomes for what we are spending.

With that in mind, I want to address two of the biggest criticisms I've heard opposing the LCFF, as well as some of the alternatives that have been proposed.

## CRITICISM 1: THERE ARE WINNERS AND LOSERS

Under Brown's proposal, the allocations for some districts will look vastly different than they do today. In particular, the differences *between* districts will look vastly different than they do today. Current allocations (of both revenue limits and many categorical programs) have little connection to the costs of educating students, which means little connection to the current characteristics of students and schools. Naturally, moving to a system that starts with equal base funding for all districts, and then adds on more for districts with higher costs, will look drastically different. Some districts will receive relatively less (the transition plans says no district will receive less in absolute terms) and, not surprisingly, the so-called "loser" districts aren't happy about that.

I think John Affeldt [eloquently captures](#) the problem with this criticism:

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How conveniently these districts forget that for decades they have enjoyed "winner" status to the detriment of

// disadvantaged students across the state. These districts could only be considered “losers” if one takes the inequitable status quo as the “just” starting point, neglecting both decades of relative funding inequities and any absolute notion of fairness.

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## ALTERNATIVE: RAISE THE BASE SO EVERYBODY ‘WINS’

The alternative that many of the wealthier districts seem to prefer is to increase the base amount. But with a fixed pot, a higher base necessarily means lower adjustments for need-related costs such as poverty and English Learners. Under such a system, districts would presumably get the same amount of flexibility as they get under the LCFF, and the revenue each districts receives would at least be *more* correlated with costs than we have now. However, this system still creates ‘winners’ and ‘losers’ because allocations would not be as tightly connected to costs as under the LCFF so districts with high proportions of high-need students would still be relatively under-funded.

## ALTERNATIVE: LET DISTRICTS RAISE MORE MONEY LOCALLY

Some in Sacramento have suggested that rather than raise the base, one way to increase revenue for districts is to make it easier for them to raise funds locally. For example, reducing the vote threshold for parcel taxes or making changes to Prop 13 rules for commercial property. While I fully support more local control over the level of revenue for schools, it is important to keep in mind that such measures would not be costless for the state. Serrano requirements dictate that district revenue cannot be connected to property wealth; even if parcel taxes are not directly based on property wealth, disparities in which districts pass them could end up meaning that the state must provide additional funds for districts that don’t. Any system that does not have some sort of state-equalizing component for unrestricted local funds runs the risk of violating Serrano equity requirements (I’ll come back to this point in a minute).

## CRITICISM 2: SPECIAL PROGRAMS WILL DISAPPEAR

The second big argument against Brown’s LCFF stems from concerns that without separate and restricted funding, programs for special populations will simply disappear in most districts. We have already seen that when given the option, and when budgets are squeezed, districts are willing to cut adult education, arts and music, etc. So those who predict a decline in some programs are almost certainly correct.

## ALTERNATIVE: SIMPLY KEEP THE CATEGORICALS

To make sure these important programs do NOT disappear, many people have advocated for retaining at least a few of the categorical streams, as is done in many other states. As I have noted in previous posts in this series, this is really a governance issue: should decisions about whether districts provide these services be made by local district officials or Sacramento policymakers? If you believe Sacramento should ensure that all districts provide a particular program, whether all districts would choose to do so locally or not, then Sacramento should also provide additional funding. However, it is worth considering that this funding does not necessarily need to be distributed through a categorical stream; it could also be allocated through the foundation formula (e.g., by increasing the base or establishing add-on weights) and enforcement could happen through the accountability system.

I should note that some advocates for low-income students and English Learners have made a similar argument about the dangers of removing categorical requirements; even though these student populations are specifically funded in the LCFF, districts will not be required to track the money directly to these students as they currently do with categorical funds. However, unlike adults, career tech, GATE and other special populations, low-income students and English Learners are already included in the accountability system. Thus, there seems to be even less justification for retaining those categorical restrictions.

## ALTERNATIVE: CONVERT CATEGORICALS TO A BLOCK GRANT BUT KEEP SEPARATE FROM THE BASE

This is essentially what was done in 2008 when the restrictions were taken off the Tier 3 categorical programs. [SB 223 \(Liu\)](#) would continue that categorical flexibility, possibly with some exceptions. However, SB 223 (at least in its current form) is deeply flawed in

one major regard: it says nothing about the allocation amounts, which are currently based on what districts received for the Tier 3 programs in 2007-08. Thus, although this proposal has the benefit of increased flexibility, it would continue a system where allocations have no rational connection to district costs.

Whether allocated through a restricted categorical account or through an unrestricted block grant (or even through the foundation formula), an equitable approach to funding special programs would require that the allocation *amounts* be determined in a way that is tied to the current costs of those programs. In the case of many categorical programs (including the Tier 3 programs as a whole), that would mean changes relative to current allocations, thus setting up the potential for a separate set of ‘winners’ and ‘losers’. Keeping the Tier 3 flexibility, without also adjusting the allocation amounts, would perpetuate inequities in the distribution of those funds but avoid the political hassle.

Even if you are not particularly concerned about equity, ignoring the allocations could leave the state open to a legal challenge. The courts generally recognize that districts vary in the needs of their students, and variations in revenue to address those differing needs have not been the subject of equity cases in any state. But because the variation in Tier 3 funds cannot be rationally explained by variation in district costs, and those funds could be considered unrestricted revenue if flexibility is extended in perpetuity, then it’s possible that the resulting variation in revenue could violate Serrano.

## IT IS ULTIMATELY ABOUT POLITICS

I wrote the School Finance 101 series to help clarify what researchers know, and don’t know, about many of the issues that have been raised in the discussions about Governor Brown’s Local Control Funding Formula. I don’t think anyone who is familiar with California’s system would argue with observations such as “allocations are not systematically connected to current educational need” and “districts have very little local control”, nor, I hope, would anyone argue that this is a system that maximizes outcomes for students.

As I said at the beginning of this post, I generally support Brown’s proposal because it is the only one that addresses both the inequity and the inefficiency of the current system, which I consider the problems that most urgently need to be fixed. But I want to end by acknowledging that this is still a VALUE statement. My opinions are certainly influenced by my experience as a scholar and what the research says, but I fully expect others to hold different opinions. This highlights the fact that choices about the structure of the school finance system are ultimately *political* decisions. Hopefully, they reflect the values we hold as a state, and are consistent with what is best for *all* of our kids. But while research and the experience of other states can give us a great deal of information about what the costs and benefits are likely to be of various choices, in the end, it is up to members of the legislature to decide for themselves whether they believe the benefits of a particular choice outweigh the costs.

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