



California's 2005 K-12 Education Primer

By Lisa Snell

Public school finance systems are in flux across the United States. In many states, tight budgets have put pressure on education financing. Several states are involved in lawsuits over the adequate financing of public schools. In addition, accountability requirements of the federal No Child Left Behind Act are pressuring states to link their school finance systems to student performance.

Yet in most states, education spending is not tied to student outcomes. California is no exception. The national trend is toward larger education budgets with little regard for student outcomes.

In 2005 all eyes are on the state of California, as Governor Schwarzenegger has introduced several education proposals that would tie education funding more closely to student outcomes. In the upcoming 2005-2006 budget negotiations between Governor Schwarzenegger and Democratic legislators, education funding will take center stage. The rest of the nation is closely watching several controversial education proposals in California, from merit pay to local control of education funding. Over the last few months, Governor

Schwarzenegger has released details of his education agenda in his State of the State address and his proposed budget for 2005-2006. This brief will address the major education issues as first framed by Governor Schwarzenegger.

PROPOSITION 98

In 1988 Californians voted for "Proposition 98," a constitutional amendment that guarantees that education spending will always go up by at least a small amount, even during economic downturns. Proposition 98 and education funding play a pivotal role in California budget decisions. California schools always receive at least 40 percent of state revenue or at a minimum the same amount they received the prior year, adjusted for inflation and enrollment growth.

Because of large increases in state revenue, each year from 1997-1998 through 2001-2002 the legislature actually over-appropriated the minimum Proposition 98 funding in the budget. This meant that schools got more than the

minimum guarantee and this process locked in a higher minimum for the next year that was not based on actual state revenue collection. If lawmakers had not provided more funding than required by Proposition 98 in a number of good budget years since 1996, the nonpartisan Legislative Analyst's Office calculates that the guarantee in the current fiscal year, about \$47 billion, would be \$7.2 billion lower.

EDUCATION FUNDING IN THE 2005-2006 BUDGET

Governor Schwarzenegger's 2005-06 spending plan for K-12 includes a total of \$58 billion in operational funding from state, local, and federal sources for 2005-06. Schwarzenegger's proposed budget breaks down to \$9,586 per student per average daily attendance (ADA). This is an increase of \$1.6 billion, or 2.9 percent, from estimated appropriations in the current year.¹ The bottom line is that the governor's budget provides an additional \$362 per pupil, a 5.2 percent increase from the 2004-2005 year. In the last decade, according to California's Legislative Analyst's Office, education spending (in inflation-adjusted terms) has increased by approximately \$930 per pupil (14 percent).

While the proposed 2005-2006 budget does represent an increase in education funding, it is controversial because it does not provide an extra \$2.3 billion in state aid that rising revenues indicate schools are due to cover the two school years of 2004-2005 and 2005-2006 under Proposition 98, the state's school finance law. In the 2004-2005 budget negotiations, Gov. Schwarzenegger made a deal with the education unions in which they would voluntarily accept \$2 billion less in Proposition 98 funding in light of the budget crisis; if it was restored if state revenues increased. However, foolish that deal might have been for the Governor to make, it has made the current budget battle over education funding very contentious.

Since state revenues were higher than projected in the 2004-2005 budget, education funding under Proposition 98 would have increased. general fund revenues in 2004-05 will be \$2.2 billion higher than previously assumed. This would translate into an increase in the minimum Proposition 98 guarantee of \$1.1 billion in education funding for 2004-05. This would then increase the 2004-2005 education base and accordingly bump the guarantee up to \$1.2 billion in the 2005-06 budget. However, by leaving the level

of Proposition 98 funding at roughly the level included in the 2004-05 Budget Act, the governor's budget frees about \$2.3 billion over the two years to help address the state's budget shortfall.

It is legal for Governor Schwarzenegger to keep the lower funding level. Under the State Constitution, a suspension of Proposition 98 (which occurred in 2004-2005) overrides all other Proposition 98 formulas and establishes a new minimum guarantee based on the amount actually appropriated for K-12 education in that year. Suspension means that any changes to the economy or student population have no impact on the required level of spending. Instead, the guarantee for that year is defined by the amount actually appropriated for schools and community colleges. Because the requirements of Proposition 98 are suspended in 2004-05, the \$2.2 billion increase in general fund revenues has no direct impact on the amount the state must spend. In other words, the suspension allows the governor to use the additional Proposition 98 funding guarantee to help reduce the \$9 billion deficit. The Legislative Analyst's Office, in a February 25th budget analysis, supported the fiscal soundness of using the reduction in Proposition 98 funding to further reduce the structural deficit, rather than raising taxes, borrowing more money, or making additional cuts to other budget items.² The 2004-2005 education appropriations fully covered cost-of-living increases and increases in student enrollment.

However, while the additional Proposition 98 funding does not have to be appropriated in the current year, when the state suspends Proposition 98 and funds education below the guarantee, a type of debt called the "maintenance factor" is created. While the 2004-2005 Proposition 98 suspension does represent a permanent funding cut that will never be repaid, the maintenance factor works toward restoring the base funding level that would have been in effect for subsequent years if the funds were received. The maintenance factor continues to grow during each year that Proposition 98 is not fully funded.

PROPOSITION 98 REFORM

In his 2005-2006 budget proposal, Governor Schwarzenegger has proposed significant reforms to Proposition 98, arguing that legislators need more control over education spending and that state revenues have not kept pace



with the demands of Proposition 98.

Schwarzenegger's Proposition 98 reform plan calls for preventing future debt by banning further suspensions of Proposition 98, repealing a section known as "Test 3," which lowers the guarantee when tax revenue grows slower than personal income, and eliminating the "maintenance factor," which rebuilds the Proposition 98 base guarantee over several years after it is lowered.

Test 3:

Proposition 98 funding usually grows with the economy. However, according to the Legislative Analyst's Office, Proposition 98 funds can grow more slowly than the economy under two different conditions:

- **Test 3—Slow General Fund Revenue Growth.** If general fund revenues grow slower than personal income, the funding guarantee is driven by the growth in general fund revenues per capita.
- **Proposition 98 Suspension.** The legislature, with a two-thirds vote, can also suspend the minimum guarantee for a fiscal year. Under a suspension, the legislature can appropriate K-14 funding at whatever level it chooses.³

Test 3 years occur when general fund revenue is lower due to conditions in the economy such as the stock market declines that reduce general fund revenue but not necessarily personal income.

The Maintenance Factor:

California's Legislative Analyst's Office explains how the "maintenance factor" works in a recent primer on Proposition 98: "When Test 3 years or suspension occurs, the state has provided less growth in K-14 funding than the growth in the

economy. This funding gap is called the maintenance factor. Proposition 98 contains a mechanism to accelerate Proposition 98 spending in future years."⁴ For example, if the state saves \$2 billion in a suspension year, it creates a maintenance factor of the same amount. In the LAO example, if general fund revenues grow faster than the economy in each of the next four years, the state will provide an additional \$500 million each year in accelerated growth or maintenance factor restoration. By year five, the state is back to a spending level that would have occurred absent the suspension.

Therefore, as the law currently stands, if the legislature were to raise taxes to cope with the current budget shortfall, most of the new revenue would have to go toward restoring the education maintenance factor because the general fund revenue would be growing faster than the economy. As the *Los Angeles Daily News* recently reported, even if Schwarzenegger were to increase taxes to help balance the \$9 billion state deficit, Proposition 98 would require that more than half of the new revenue be used to increase education funding rather than filling the budget gap.⁵

According to the LAO, the maintenance factor is not actual borrowing from Proposition 98. The LAO explains that

When the state creates a maintenance factor, the state is saving the amount of the maintenance factor. And, while the General Fund savings are not permanent, the state never has to repay funding not provided to schools as a result of the maintenance factor. For example, in 2004-05 under the Governor's proposed 2005-06 budget, the state saves \$3.1 billion by its suspension of Proposition 98 in the current year. Under the existing Proposition 98 formulas, the state will over time provide accelerated growth to build the \$3.1 billion back into the Proposition 98 base. However, until the entire \$3.1 billion is restored, the state will continue to have annual General Fund savings.⁶

In other words, rather than having a higher base that requires an appropriation of \$3.1 billion more every year as required by Proposition 98, the maintenance factor builds the base back over time and only requires the higher appropriation as the base is restored.

Governor Schwarzenegger's Proposition 98 reform proposal calls for eliminating the maintenance factor process. His proposal calls for repaying the amount currently owed schools for lowering the guarantee in past years, about \$3.7

billion, over 15 years in installments that would pay off the debt but would not increase the Proposition 98 base guarantee. Once the current maintenance factor was paid off, the state would never again have to restore the Proposition 98 base when education funding is less than the full Proposition 98 guarantee. In other words, the Proposition 98 base for subsequent years would be based on actual education funding allocations in the prior year. In addition, Proposition 98 funding would be included in Schwarzenegger's proposal for a spending control that could trigger automatic across-the-board midyear cuts when spending exceeds revenue.

To summarize, Proposition 98 reform, as outlined by the governor, would change the education funding process by removing the legislature's authority to suspend Proposition 98 or fund it at a lower level than the guarantee by using Test 3. However, it would replace these cost-cutting measures by subjecting Proposition 98 funding to across-the-board cuts in spending when necessary because of budget shortfalls. In other words, it would replace one means of controlling Proposition 98 funding with a more clear-cut and transparent measure that shows actual cuts to education spending. If and when these Proposition 98 cuts were made, they would no longer be subject to a maintenance factor to restore the Proposition 98 base in future years. Instead the starting point for the Proposition 98 funding level would be based on the actual education funding allocations in the prior year.

As Schwarzenegger said when he released his budget, "Cruise-control spending is out-of-control spending. The way the budget formulas now work, we will never catch up. And as I said, increasing taxes is out of the question because we don't have a revenue problem. We have a spending problem. And the worst is, we also have a formula problem."⁷

The Legislative Analyst's Office has argued that Schwarzenegger's proposed changes to the Proposition 98 formula will actually result in more auto-pilot spending. "If the Legislature believes that this is the case, the solution would not be placing more spending on cruise control—as the administration is proposing for Proposition 98 and other areas of the budget. The solution would be to eliminate these types of provisions that limit the Legislature's and Governor's authority to make annual budgetary decisions."⁸ In other words, the Legislative Analyst's Office argues that the Proposition 98 reforms just shift to a different kind of auto-pilot spending that the legislature is shackled with and does little to give them actual control over education spending.

FUNDING EQUALIZATION AND LOCAL CONTROL OF SPENDING

Proposition 98 reform does not go far enough to simplify the school funding system. While Proposition 98 reform addresses the auto-pilot nature of California's education funding system, it does not address the structural problems with funding distribution at the district and school level.⁹

California has one of the most centralized public school systems in the United States. In California, local property taxes are aggregated in Sacramento and then re-allocated to school districts on a per-capita basis. These reallocated funds—both general revenue and categorical funds—do not flow directly to schools, but to school district central offices. The central offices then allocate personnel, rather than money, to schools. For example, a school district would determine the number of teachers and other kinds of personnel each school receives based on the district's student population and characteristics. If a school principal wanted to invest resources in an additional reading instructor to raise reading scores at the school, the school principal would not have the budgetary discretion to hire the reading teacher because employees are assigned at the district level based on the average characteristics of schools in the district.

More specifically, California's education finance system offers schools money through two types of funding streams: revenue limits, which are state-allocated unrestricted per-pupil funds that can be spent at the school district's discretion, and categorical funds, which include 100 different programs and have very specific requirements attached to the funding. The funding system is complex and results in unequal funding amounts at the student level. In many cases, the amount of money a school district receives depends on how savvy the school district is and the size of its central bureaucracy rather than the needs of individual students. The inequality of funding becomes compounded at the school level.

In a February 2005 study by the Education Trust West, *California's Hidden Teacher Spending Gap: How State and District Budgeting Practices Shortchange Poor and Minority Students and Their Schools*, found that state education dollars are not distributed equally within school districts. The report found that the money spent on teachers' salaries in California, which makes up the majority of educa-

tion funding in California, varies widely from school to school within the same school district. For example, all ten of California's largest school districts post a spending gap on teachers' salaries between high and low minority high schools. These gaps range from \$64, 291 to \$522, 459.¹⁰ The Education Trust West report found dramatic spending gaps in teachers' salaries within districts, with more highly paid teachers and more experienced teachers concentrated in more affluent schools.

State funding reports only list average teachers' salaries for entire districts instead of calculating the actual salaries of teachers assigned to any particular school. These district averages are even reported on the school level report cards. These averages mask teacher salary differences between schools within the same district. The report uses this analogy:

It's as if we had two pots of water, one ice cold and the other boiling hot, and concluded that the average water temperature is warm: True, but not very informative about the conditions in each pot.¹¹

Education Trust West recommends reporting transparent school salary and budget information at the school level, changing the funding system to allow money to follow the child rather than districts allocating funds based on teaching positions in an individual school, and changing the lock-step salary schedule to allow higher salaries for more challenging school assignments.

A number of school districts across the country and abroad have adopted a funding mechanism for schools that gives local schools more control over resources and leads to increases in student achievement.¹² Pioneered in Canada's Edmonton school district in Alberta in the 1980s, "weighted student formula" has been imported to Seattle, Cincinnati, San Francisco, and Houston. The funding structure allows individual schools to compete for students and allows principals to control their budgets and tailor their schools to the needs of their specific school populations.

School districts use student characteristics to determine per-pupil funding levels and better match costs with actual student needs. In each case, schools are given responsibility for managing their own budgets in key areas such as personnel, school maintenance or learning materials. In addition, the funding follows the child to each school and is based on the characteristics of the individual child. Therefore, schools have an incentive to improve academic programs and improve programs for at-risk and low-income students. This type of funding formula was recommended

by the California Legislative Analyst's Office in their report.

San Francisco, with 116 schools and 60,000 students, is in its fourth year of using a weighted student formula for funding and giving more decision-making power to principals and their School Site Councils, made up of parents and school staff. Since implementing the weighted student formula, San Francisco's test scores have improved every year, and it is now the highest-performing urban school district in California.

Similarly, in 2004 the Oakland Unified School District transformed its budgeting formula from a centralized process to "results-based budgeting." As reported in a new Education Trust West report, "California's Hidden Teacher Spending Gap," the Oakland District allocates funding to its schools based on the number and type of students at each school. Oakland gives each school administrator the flexibility to allocate this funding in whatever way fits the school's instructional needs. Oakland allocates funds to the school in the same way it receives revenue from the state: unrestricted Average Daily Attendance (ADA) funding is allocated to the schools based on their current year enrollment. According to *Education Week*, Oakland is the only district in the nation that gives principals direct control of their ADA funding. In addition, several states including California, Colorado and Hawaii are looking at implementing the weighted student formula statewide.

California should follow Oakland and San Francisco's lead. California should create one simple funding mechanism that distributes both categorical and revenue-limit funding based on a weighted student formula that would include one base allocation equalized across the state and additional weighted funds for students with additional needs, including special education, poverty, and English learners. This process would make school finance in California simpler and more equitable, and bring significant cost savings by reducing categorical administration costs and central office costs and redirecting some of this savings to increase classroom-level spending.

In his 2005-2006 budget, Governor Schwarzenegger has called for creating a pilot program that would place school resources under the control of each individual school site. The pilot would test the concept in a small number of districts that volunteer for the program. As part of the pilot, schools would be given more flexibility over the use of state categorical program funds in order to help the sites use funds most effectively to meet student needs.

MERIT PAY

The governor has proposed a constitutional measure to switch teacher pay from the current “step and column” system (based on the number of higher education units and years of teaching experience) to a merit-based pay system. There are really two distinct issues under a merit-based system. The first is actual merit pay that rewards teachers based on performance outcomes including student achievement. The second is the idea of differential pay, which offers more compensation for difficult-to-staff subjects such as special education and science or difficult teaching assignments in more challenging schools.

The consideration of teacher merit pay is not likely to be decided within the legislature. The Senate Education Committee has voted against a bill calling for a constitutional amendment forcing local school districts to give teachers merit pay and to keep them on probation for 10 years before achieving tenure. Similarly, the idea of merit pay will be a non-starter in the assembly education committee. Gov. Schwarzenegger has endorsed two ballot initiatives that would move toward performance-based pay structures in K12 education. The first would give tenure to teachers in five years instead of the current two years and make it easier to fire tenured teachers after consecutive negative performance reviews. The second initiative would have based teacher compensation on an individual teacher’s performance reviews and the teacher’s students’ performance. Unfortunately, the proposed merit pay initiative will not have enough signatures to put the proposal on a November special election ballot.

Merit pay remains popular and is a growing trend in the United States. A recent field poll shows that 60 percent of registered voters in California are in favor, with Democrats, Republicans, and nonpartisans all providing praise. As pollster Mark DiCamillo notes, “The concept is intuitively appealing to voters. Merit pay is really the way they believe most things should work in the world, and they would like it for teachers as well.”¹³

Since the merit pay initiatives legalize merit pay through a constitutional amendment, but leave the specific implementation up to the legislature and local school districts, there are several good models to consider:

- One local model, by the Los Angeles-based Milken Family Foundation’s Teacher Advancement Program has been implemented in local districts in ten states.¹⁴

Arizona, Arkansas, Florida, Louisiana, Minnesota, Ohio, and South Carolina are working with the Milken Family Foundation’s Teacher Advancement Program, or TAP. The program rewards teachers both for acquired knowledge and skills and growth in student achievement, as part of a more comprehensive career-development plan. TAP has demonstrated positive results in terms of student achievement gains, as well as teacher recruitment, retention and satisfaction. A recent study of TAP that compared TAP schools in Arizona and South Carolina with nonparticipating schools found the TAP schools outperformed the control schools about 70 percent of the time on test scores.

- Another model is the teacher compensation plan at the Vaughn Next Century Learning Center, which is a charter school in San Fernando serving 1,750 low-income pre-K through eighth graders.¹⁵ Under the Vaughn plan, teachers who score at least a 3 on a performance evaluation (on a scale of 4) can earn an additional \$5,550 over and above their base salary. The Vaughn plan provides stipends for various leadership roles, from \$500 for a school-wide committee chair to \$1,000 for a peer assessor. If student attendance is above 98 percent, all teachers earn a \$1,000 bonus. And all teachers earn a \$2,000 school-wide performance award when students meet or exceed learning improvement goals in reading, writing and mathematics. The school has met or exceeded its goals in each of the past five years.
- In Denver, current teachers will have the option of joining a newly designed system that rewards teachers for increasing student achievement and earning good evaluations.¹⁶ New teachers hired in 2006 will be required to join.

Approved by the district’s school board and the 3,200-member Denver Classroom Teachers Association last year, ProComp is based on a pilot pay-for-performance plan that has been in place in the district for about five years. Under ProComp, teachers would be rewarded with raises and bonuses for improving student achievement. Additional incentives would be available for satisfactory evaluations as well as for attracting teachers to the schools with the greatest needs.

According to *Education Week*, the Denver framework provides teachers with several ways to earn raises—in most cases, a small percentage of starting yearly pay for a credentialed teacher—including student academic growth as mea-



sured by test scores. Teachers may also get hikes by being evaluated as satisfactory or by adding to their education or training, as long as they show the benefit to their classrooms. In addition, teachers working in high-poverty schools or in subjects

with personnel shortages would be paid more. Evaluation of the Denver plan shows that in most cases, Denver schools that used a pay-for-performance system got better learning results than those that did not during a four-year trial run.¹⁷

- Minnesota teachers and education officials in some Minnesota school districts are finding that a “merit pay” system—in which teachers are partially paid on their performance in the classroom—is beneficial and effective, according to a recent CNN report.¹⁸ In several Minnesota districts that have implemented merit pay programs, teachers can earn raises based on their students’ performance and positive peer reviews. Minnesota’s governor would supplement the budgets of school districts that overhaul traditional pay systems and create different levels of teachers, allowing the best teachers to become master teachers advising a whole school and others to become mentors.
- In Texas, Gov. Rick Perry plans to attract teachers to schools with the lowest student performance by paying them \$7,500 above the standard pay.

In conjunction with a merit pay system, California needs to move toward a value-added testing system that tracks student gains over time. This would demonstrate each teacher’s contribution to an individual student’s achievement gains or losses. In 2003, California adopted a law that would assign every student a unique identification number by the 2005-2006 school year. The student identification number will allow individual student test scores to be tracked and compiled over time, thus making possible the database necessary for creating a value-added model. The Pacific Research Institute’s Lance Izumi has proposed a value-added testing model for California that could be implemented by the state of California.¹⁹

FAILING SCHOOLS

The 2005-2006 budget proposes to convert failing schools into charter schools or assume management of the schools through a School Recovery Team appointed by the State Board of Education. The budget proposal would place an unknown number of schools that are failing to meet state or federal performance goals into this intervention program.

In California, individual schools receive two state rankings. The API scores of individual schools are sorted from lowest (one) to highest (ten) to create a statewide rank. The second ranking is called the Similar Schools rank, showing where a school ranks academically on a scale of one to ten compared with 100 other schools with similar demographic characteristics. Low-performing schools rank a “1” in both the statewide rank and the similar schools rank. California needs a model in which schools with a “Similar Schools” ranking of 1 or 2 for two consecutive years, will be required to allow charter schools to competitively bid to operate the school or to offer opportunity scholarships in which school funding follows the child to the public or private school of the parents’ choice. These schools will eventually have to be reformed under the No Child Left Behind Act anyway and this move will proactively create more high-quality school capacity.

In addition, in light of the U.S. Department of Education’s demand for California to apply tougher standards for school districts, more than one-third of the state’s 1,000 districts could soon be labeled as failing. Governor Schwarzenegger has provided few specific details for how the state would manage failing schools and districts.

California could follow the lead of other localities that have used competition to help improve outcomes for low-achieving schools. Governor Schwarzenegger should examine market-oriented remedies to increase higher quality school capacity and offer students in failing schools real choices, including:

- Colorado’s law allowing charter schools to take over public schools found to be “unsatisfactory” for three consecutive years.
- Philadelphia’s model that lets nonprofit and for-profit providers and charter schools compete to run 100 failing schools.
- Florida’s opportunity scholarship program that allows students in “F”-rated schools to transfer to other public or private schools.

- Chicago’s “Renaissance 2010” plan to shut down the city’s failing public schools and open 100 new schools by 2010. The plan creates 30 new charter schools and 30 new contract schools by private groups that sign five-year performance contracts with the district, and will also allow 60 of the 100 schools to operate outside the Chicago Teachers Union contract.
- Existing private school capacity in parochial and independent schools to serve students who are trapped in failing California schools. Local parochial and independent private schools in these low-performing school districts currently have some seats available that low-income children could immediately occupy.
- Mayor-sponsored charter schools that follow the lead of Oakland Mayor Jerry Brown and Indianapolis Mayor Bart Peterson and solicit bids for high-quality charter schools that would be supervised by the mayor’s office. While not legally a charter-school authorizer in California, the mayor’s office could sponsor high-quality charters in partnership with nonprofit groups who would be happy to have a high-profile partner.
- Houston’s Superintendent Abe Saavedra, who plans to *contract out* control of Houston’s lowest-performing high schools. Saavedra said he is open to offers from nonprofit and for-profit groups. That could include universities, school reform companies (such as New York City-based Edison Schools) or local nonprofits (such as the Knowledge is Power Program (KIPP) or Project GRAD (Graduation Really Achieves Dreams), both of which have a presence in the Houston Independent School District).
- Florida’s plan to outsource failing schools. If Florida’s F-rated public schools don’t improve this year, the state could ask someone else—perhaps a private company or a state college—to step in and run the troubled institutions. In addition, Gov. Jeb Bush has proposed offering private school vouchers to students who have failed the reading part of the FCAT for three consecutive years.
- The Oakland School District’s plan to convert *eight failing schools* to charter schools. Similarly, the San Diego School Board has just approved a proposal to convert four low-performing schools to charters.



Charter Schools

Charter schools play a significant role in Governor Schwarzenegger’s 2005-2006 education plans. The governor has called for three significant charter school measures: streamlining charter school categorical funding, expanding charter school authorizers to include universities, and using charter schools as one option to help the state cope with students stuck in failing schools.

The governor indicated, for example, in his *2005-06 Budget Summary* released in January that he will introduce alternative charter authorizer legislation this year. Schwarzenegger’s proposal would allow charter schools to select among a greater range of agencies that can authorize charter schools. The Legislative Analyst’s Office succinctly explains the benefits of multiple charter authorizers:

For all practical purposes, only school districts may authorize a charter school. When that happens, the district assumes specific oversight responsibilities for the charter school. Under narrow statutory exceptions to this policy, about 10 percent of charter schools are authorized by county offices of education or the State Board of Education. This restrictive authorizing system creates two problems: (1) school districts may be unable to exercise meaningful oversight and (2) the lack of competition among charter authorizers can result in higher district oversight costs and lower quality oversight.²⁰

The governor’s budget also attempts to reform the charter school categorical funding block grant. Traditionally, charter schools have received considerably less categorical

funding than their public school counterparts. For example, they have been excluded from large categorical programs such as class-size reduction. However, both charter school leaders and the Legislative Analyst's Office argue that Schwarzenegger's categorical reforms would actually make the block grant worse rather than better. LAO calls the governor's proposal so ambiguous that it would generate even more confusion than exists under the current block grant.

The charter school block grant was established in 1999 to provide charter schools with categorical program funding similar to public schools serving similar student populations. According to the LAO, "the block grant currently suffers from two basic problems. The primary problem is a lack of consensus regarding which programs are in and out of the block grant. A secondary problem is the funding formula used to calculate the block grant funding level is overly complex."²¹

The LAO has recommended a simple and transparent categorical block grant that clearly identifies which categorical programs are included in the block grant and which programs charter schools must apply for separately. The key point for the legislature is creating a block grant that more fairly equalizes funding between charters and public schools for serving students with the same special needs in a simple and transparent manner.

Finally, Schwarzenegger has proposed the option of creating more charter schools to help school districts cope with failing schools that must be reorganized due to years of low student achievement. Charter schools could add more capacity for students trapped in low-performing schools through a competitive bidding process that lets a variety of charter school providers offer local school boards their models for restructuring local failing schools.

Pension Reform

Gov. Arnold Schwarzenegger's budget calls for shifting about \$500 million in teacher pension payments to California's school districts. Under the proposal, school districts would pick up the state's 2 percent share of contributions on behalf of teachers and administrators to the California State Teachers Retirement System, or CALSTRS.

The state has contributed this amount of non-Proposition 98 funds each year to pay for a portion of the system's costs. Beginning in 2005-06, the governor's budget proposes that school and community college districts assume

responsibility for these costs.

Public school employee pensions would also be part of Schwarzenegger's overall plan for pension reform. For example, the California State Teachers Retirement System's current state obligation is at \$126 billion. Schwarzenegger's plan would require all new public hires after 2007 to contribute to their own retirement through 401(k)-style individual investment accounts used by more than 40 percent of private sector employees.

School Outsourcing

Governor Schwarzenegger has also proposed repealing a state law that restricts school districts from contracting with outside providers for non-instructional services. It is unclear whether the governor would fight for this reform as part of the budget negotiations or through a ballot initiative. In addition, California Republicans have renewed their fight to repeal the bill that outlaws outsourcing in public schools. The new bill is weaker than previous bills with many concessions to labor. Legislation being developed would allow schools to outsource for some services, saving districts money while keeping in place protections for employees replaced by contract workers, said Assembly Republican Leader Kevin McCarthy of Bakersfield. The Republican plan this year calls for displaced workers to be offered a job with the contracted company or elsewhere in the district. The employer would have to match the hourly wage and provide the same level of health-care benefits. It also would require more extensive fingerprinting and background checks of school workers.

In the last few years, the anti-outsourcing bill has cost districts lots of money and forced some to suspend instructional programs. Fresno is the case in point. Fresno Unified — in financial shambles and struggling to avoid a state takeover — could save millions of dollars each year if it were allowed to contract out for landscaping, food and printing services. Fresno's Central Unified School District could save \$500,000 per year by using an outside company to do its printing. By allowing school districts to use outsourcing as a financial tool, districts could direct more money to the classroom and focus on their core business of educating children.

School Budget Transparency

The governor has also proposed requiring school districts to make their budgets publicly available. This would

allow parents and taxpayers to see how money is spent at the school level. In addition, it would allow taxpayers to reconcile school and district budgets to see how much money is actually making it into individual school budgets versus being absorbed at the district level. Currently, it is impossible to determine costs at an individual school. This proposal would vastly increase school accountability by showing which schools are efficiently using their education dollars to improve student outcomes.

CONCLUSION

Governor Schwarzenegger has offered several proposals that would help tie California's school budgeting process more directly to student outcomes and give schools more local control over education funding. These issues will likely not be resolved in the state legislature. Most battles will either be fought as part of the budget negotiation between Republicans and Democrats to reach a budget for 2005-2006 or they will be introduced as initiatives backed by the governor. These proposals represent a first step in creating a more equitable school finance system with explicit incentives to increase student achievement. ■

ENDNOTES

1. For the most detailed analysis of the education budget see, Legislative Analyst's Office, *Analyses of the 2005-2006 Budget Bill*, February 24, 2005, <http://www.lao.ca.gov/analysis.aspx?year=2005&chap=5&toc=1>
2. Ibid.
3. Legislative Analyst's Office, *Proposition 98 Primer*, February 2005, http://www.lao.ca.gov/2005/prop_98_primer/prop_98_primer_020805.htm
4. Ibid.
5. Harrison Sheppard, "Education a Top State Test," *Los Angeles Daily News*, February 27, 2005.
6. Ibid.
7. Ibid.
8. Legislative Analyst's Office, *Analysis of the 2005-2006 Budget Bill*, February 24, 2005, <http://www.lao.ca.gov/analysis.aspx?year=2005&chap=5&toc=1>
9. For a detailed analysis of the complex spending formulas in California see, Lisa Snell, *Restructuring California's School Finance System*, January 2004. <http://www.rppi.org/schoolfinance.shtml>
10. Education Trust West, *California's Hidden Teacher Spending Gap: How State and District Budgeting Practices Shortchange Poor and Minority Students and Their Schools*, February 2005. <http://www.hiddengap.org/report/>
11. Ibid.
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RELATED STUDIES AND ARTICLES

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