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WHAT WOULD THE CONSTITUTION REVISION COMMISSION'S EDUCATION PROPOSALS MEAN FOR CALIFORNIA'S SCHOOLS?

The California Constitution Revision Commission (CCRC), created by SB 16 of 1993, is charged with recommending changes in the state Constitution aimed at improving the state's governance and fiscal structure. The Commission recently released its preliminary recommendations. Once finalized, the CCRC's proposals will be forwarded to the Legislature for action and, if approved by a two-thirds vote of both houses, will be submitted to the voters this November. This briefing paper is the second in a series examining the recommendations of the California Constitution Revision Commission.

HOW WOULD THE CCRC CHANGE SCHOOL FINANCE?

As part of their deliberations, the CCRC reviewed the governance structure for K - 12 education, the powers and authority of local school boards, and school finance. The CCRC's recommendations for reforming K - 12 education include:

- Adding a statement to the constitution affirming that K - 12 education is a fundamental state interest.
- Making the Superintendent of Public Instruction an appointed, rather than elected, position. The Superintendent of Public Instruction would be appointed by the Governor and confirmed by the Legislature.
- Revising the school funding guarantee, enacted by Proposition 98 in 1988, to create a per-pupil block grant.
- Repealing the \$120 per pupil "basic aid" allotment to school districts whose locally generated funding exceeds the state allocation.
- Expanding local school districts' revenue raising authority.
- Eliminating the Constitution's references to County Boards of Education and County Superintendents of Schools.
- Providing local school boards with greater authority to operate local programs and make decisions that do not conflict with state law.
- Providing incentives for unification of school districts.
- Taking community colleges out from under the school funding guarantee.

This *Budget Brief* focuses on the Commission's preliminary recommendations in the area of school finance. The Commission's September 1995 publication, "Summary of Preliminary Recommendations,"

serves as the starting point for this analysis. Where necessary, the published recommendations were supplemented by conversations with Commission staff and consultants to the Commission.

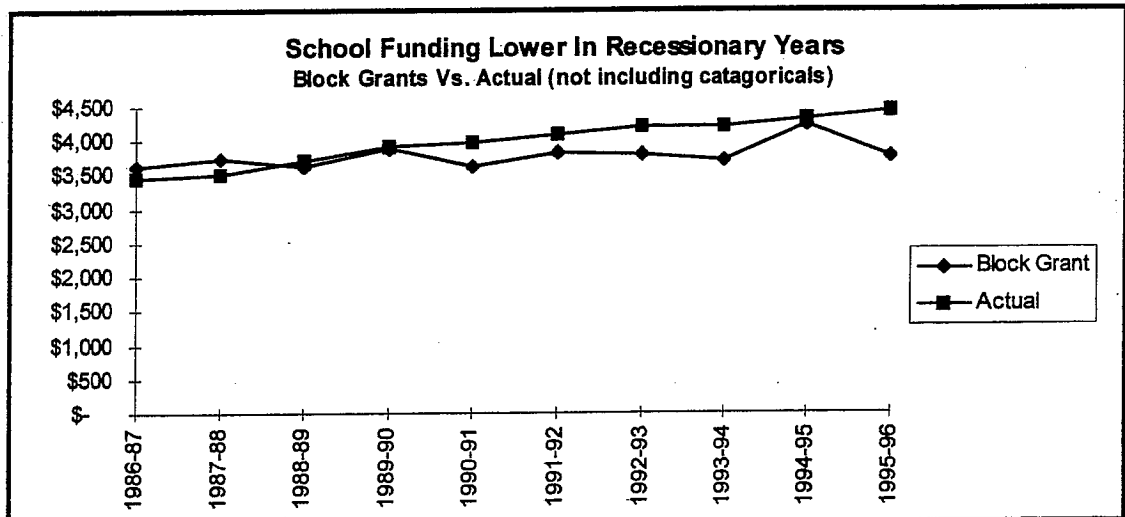
WHAT WOULD THE CCRC'S PER PUPIL BLOCK GRANT PROPOSAL MEAN FOR SCHOOL FUNDING?

Currently, funding for K - 12 education and community colleges is based on a funding guarantee established by Proposition 98 of 1988, as modified by Proposition 111 in 1990. In brief, Proposition 98 specifies the minimum level of funding for schools from state and local sources based on certain 'tests.' Under the CCRC's proposal, Proposition 98 would be revised so that each district would receive a block grant consisting of a fixed amount for each student. This per pupil grant would increase each year by the lesser of per capita personal income growth or state General Fund revenue. In years of exceptionally high state revenue growth, the state would be required to put aside funds for distribution to districts whose per pupil block grants are below the statewide average.

To analyze the impact of the CCRC's proposal, the California Budget Project (CBP) compared the level of funding school districts would have received under the block grant with the amounts actually received over the past ten years. Funding levels are compared on a per pupil or per "ADA" (average daily attendance) basis.

Per Pupil Block Grant Did Not Guarantee An Amount As High As Actual Funding

The CBP calculated the average per pupil block grant from 1985 through 1995 using the formula recommended by the CCRC. The block grant would have been lower than actual funding in eight of the past ten years.



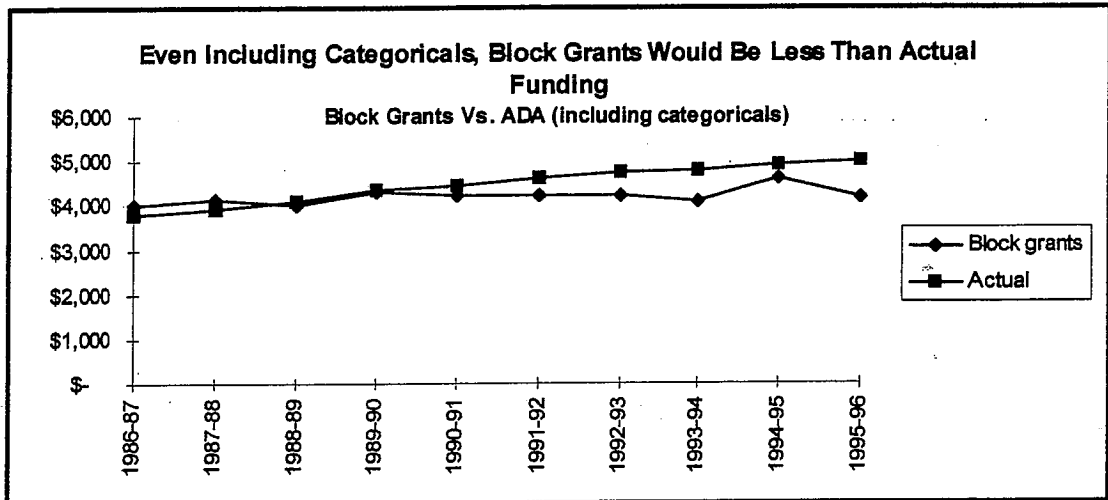
Source: California Budget Project calculations based on data from the Legislative Analyst's Office

- In 1986 and 1987, years in which California had a healthy economy, the per pupil block grant would have slightly exceeded actual funding levels.
- The block grant's restoration aid provision lessened the gap between the two amounts in 1991-92 and 1994-95.
- The block grant would have reduced school funding during the recession of the early 1990's.
- The largest difference would have occurred in 1995-96 when block grant funding would have been \$659 less than the amount actually received. This can be explained, in part, by the one time payments resulting from the settlement of California Teachers Association v. Gould involving "off-budget" loans to schools made in 1991 and 1992.

The deliberations of the CCRC suggest the Commission does not intend to include funding for special categorical programs, such as special education, desegregation, adult education, child care, and other compensatory education, as part of the block grant. Leaving categoricals out of a constitutional funding guarantee raises several serious policy issues:

- These programs would be left to compete with other state programs for funding. This poses the danger that in recessionary years state funding for these programs could be reduced or eliminated. However, school districts would still have to provide services and could be forced to absorb the full cost of the programs.
- Funding for special categoricals has increased more rapidly than school spending overall. Special education costs increased from \$0.8 million in 1986 to \$3.24 million in 1995, a growth of 316%. Spending for compensatory education increased from \$0.4 million in 1986 to \$0.8 million in 1995, a 98% increase. In contrast, total education spending increased 26%.

Recognizing that the CCRC recommendations are still in their preliminary stages, the CBP also compared spending under the block grants with actual spending including funds for categorical programs in the block grant.



Source: California Budget Project calculations based on data from the Legislative Analyst's Office

While including categorical programs would have increased the size of the block grant, the grants would still be lower than actual school funding in all but two years.

How Do You Measure Per Pupil Spending?

Per pupil spending is a valuable measurement. It transforms education funding into an understandable number by summarizing how much money is being spent on each student in a year. It is not, however, a number that is readily available or easily comparable to past years. Comparison between years is hindered by the fact that budget summaries have not consistently reported the amount of per pupil spending. In many cases, the methodology used to calculate the number has differed. The calculation of per pupil spending in recent years is complicated by the issue of loans, and in which year to count the funding. Because of the lack of consistency in the budget summaries, we based our calculations on data from the Legislative Analyst. To arrive at a per pupil spending amount, we added up state aid and local property tax revenues and divided by Average Daily Attendance (ADA).

THE CCRC'S LOCAL REVENUE RAISING OPTIONS FOR SCHOOLS

Currently, schools have limited ability to raise local revenues. School districts have the authority to impose a parcel tax or impose a property tax rate for the repaying of General Obligation (G.O.) bonds with the approval of two-thirds of local voters. In addition, schools can levy a sales tax on a countywide

basis under certain conditions, including approval by two-thirds of local voters. To date, only one county, San Francisco, has approved such a tax. San Francisco's situation is somewhat unique since the county consists of a single school district.

The CCRC's proposals grant schools limited additional revenue raising authority, including the ability to:

- Raise local property tax rates by an unspecified, limited amount with a two-thirds vote of the people.
- Raise the county sales tax by 1/2 cent with a majority vote of the people.

To utilize this capacity, a district would have to be unified. A unified district provides both elementary and secondary education. At present, 30% of the state's 1,002 districts are unified.

How Are School Bonds Used?

- General Obligation (G.O.) bonds for education (school bonds) raise money to build and maintain school capital facilities.
- G.O. bonds are paid for by an add-on to the *ad valorem* property tax. Revenues from the additional property tax rate go into a special fund to repay indebtedness and related interest, and are backed by the full faith of the issuing school district.
- Authority to impose a property tax for school bonds is granted by an exception to Proposition 13's 1% property tax rate cap. This exception is not limited to schools, but may be used by any entity of local government for the purpose of acquiring and improving real property.

How Are School Parcel Taxes Used?

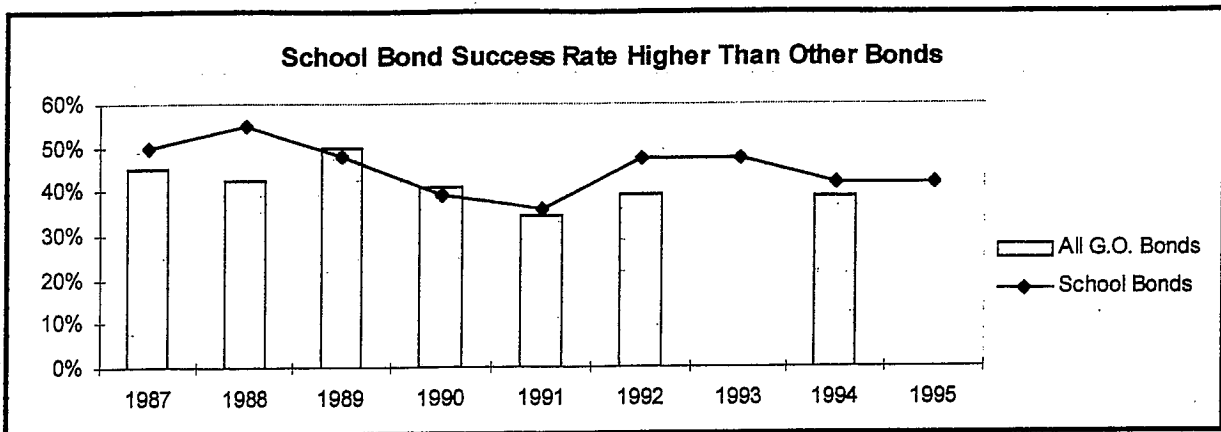
- Parcel education taxes can be used for any purpose specified in the ordinance put before the voters authorizing the tax.
- Parcel taxes are flat rate taxes charged to property owners, independent of the value of the property.

What Will Authority To Raise Property Taxes Mean For Local School Districts?

To evaluate the potential effectiveness of allowing school districts to increase property tax rates, the CBP examined the success rates for elections on local school bond measures. This comparison should be illustrative since the CCRC's property tax proposal and current bond authorization both require two-thirds voter approval and result in a property tax increase. Under current law, the increase is restricted to payment of principal and interest on indebtedness. Under the CCRC proposal, the new property tax revenues could be used for general operating purposes.

An analysis of school bond election results found that:

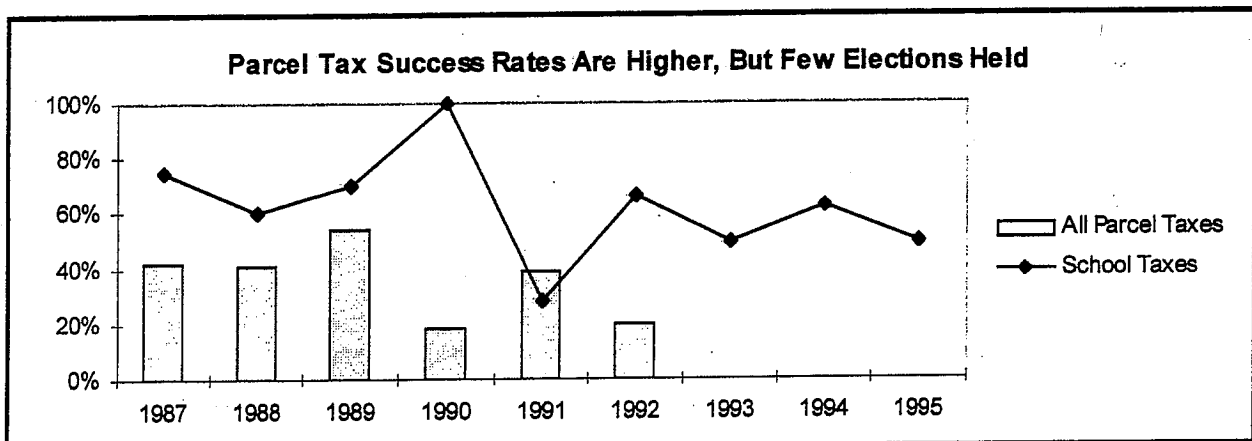
- Between 1987 and 1995, 44% of school bond measures passed. This is slightly above the 42% passage rate for all local bond measures between 1987 and 1992.
- School bonds had a higher rate of passage in small, relatively prosperous communities.
- School bonds tended to be defeated in rural and large urban school districts.



Source: School Services of California, California Association of Realtors, California Debt Advisory Board¹

The success rate of elections on parcel taxes to fund education was also evaluated. This analysis found:

- Between 1987 and 1995, 52% of parcel taxes for school purposes passed. It is important to note, however, that there were only 86 school parcel tax elections during this period.
- School parcel taxes were far more likely to be successful than the 36% success rate of other parcel tax measures.
- Small, affluent districts are more likely to pass per parcel education taxes. For example, school districts in Marin County rely heavily on per parcel taxes.



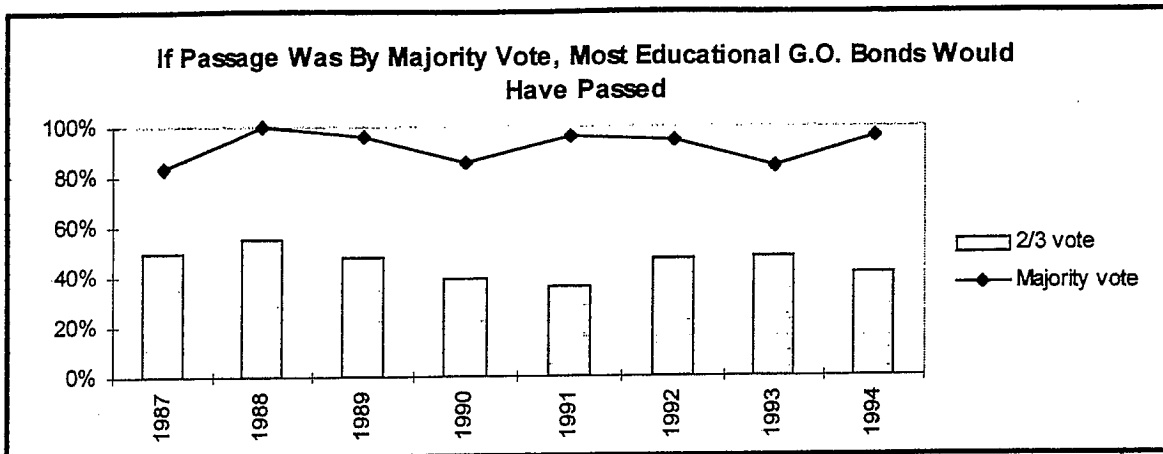
Source: School Services of California, California Association of Realtors²

The Two-Thirds Vote Requirement A Barrier To Passage Of School Bonds And Per Parcel Taxes

- If a majority of the voters could approve school bond measures, 91% of local school bond measures would have passed since 1987.

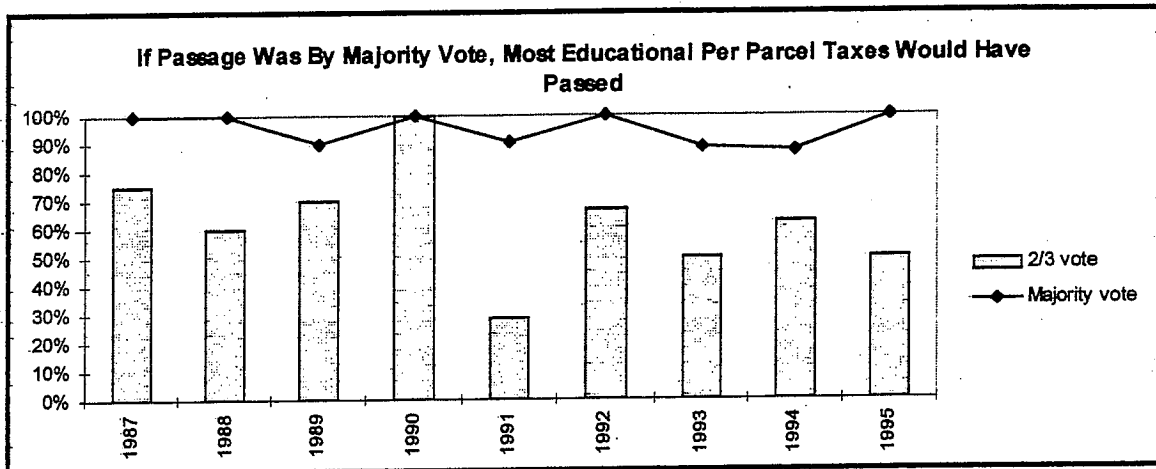
¹ After 1992, data on all G.O. bonds was only collected every two years, during general elections. The 1987-1992 data is for all elections held during the year.

² After 1992, there was no systematic tracking of general parcel tax elections. As a result, success rates are not available for 1992-95.



Source: School Services of California

- If a majority of voters could approve parcel tax measures for education, 93% of per parcel taxes would have passed since 1987.



Source: School Services of California

INCREASING THE SALES TAX IS A LESS DESIRABLE FUNDING OPTION

California has repeatedly increased its sales tax rate over the last several decades. In 1975, the state portion of the sales tax rate equaled 4.75%; by 1995, the state rate was 6%. Despite repeated rate increases, sales tax revenues as a share of state personal income have declined due to the shift in consumption patterns from taxable goods to untaxed services. In light of the state's own growing reliance on the sales tax, easing schools' access to this revenue option raises a number of policy concerns:

- The usefulness of the CCRC's local sales tax options is likely to be lessened by its requirement that a tax be approved on a countywide basis.
- Increasing reliance on the sales tax is problematic for 3 reasons: sales tax revenues are volatile and at the mercy of economic conditions; taxable sales are declining as the economy moves from an industry based economy to a service based economy; and sales taxes are regressive, with lower and middle income households paying a larger percentage of their income in sales taxes than higher income households.

FULL IMPACT OF THE CCRC PROPOSALS IS DIFFICULT TO ANALYZE

Due to the preliminary nature of the proposals, a comprehensive analysis is difficult at this time. Based on these preliminary findings, the CCRC's recommendations raise several fundamental policy concerns:

- The recommendations do not indicate the starting level of the block grant. It is not clear whether each district will begin at its current funding level or begin at the state average. Beginning at the state average could have significant distributional consequences as districts that currently have high local revenue contributions, and are above the state average, will be forced to lower their per pupil spending. Conversely, starting at current funding levels could lock funding inequities permanently in place.
- The proposed reforms do not go far enough. The CCRC starts with the premise that school finance should be a shared local and state responsibility. As presented by the CCRC, however, these recommendations do not provide schools with adequate discretion at the local level to raise additional funding.

CONCLUSIONS:

The CCRC's attempt to simplify school finance should be applauded. However, there are a number of limitations and policy concerns raised by the recommendations issued to date. Among these concerns are:

- The two-thirds voter approval requirement for parcel taxes and school bonds currently limits school districts' ability to raise local revenues for schools and school facilities. The property tax proposal, with its two-thirds voter approval requirement, will be equally handicapped.
- The two-thirds vote is particularly difficult to achieve in large urban districts and small rural areas, which have the greatest need for funds.
- While the ability to increase property tax rates adds another *method* by which schools can raise money, it does not significantly improve the capability of school districts to increase their funding.
- Changing the property tax rate is a politically sensitive issue. Voters are not likely to approve property tax increases for general school funding more readily than they currently approve bonds for school facilities.
- In order to empower school districts with the ability to raise finances, local voters should have the ability to impose per parcel taxes, general obligation bonds, and the new property tax proposal by a majority vote.

The California Budget Project (CBP) is a nonpartisan, nonprofit organization whose goal is to promote a better understanding of state fiscal issues in order to promote a healthy public sector based on a fair and equitable tax system. Publication of this brief is supported by grants from the James Irvine, Ford, and Annie E. Casey Foundations and individual donations and subscriptions.
