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California's K–12 Education Needs

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On November 3, 2020, Californians will vote on Proposition 15, also known as the California Schools and Local Communities Funding Act of 2020. The proposition would require commercial and industrial properties to be taxed based on their market value rather than on their purchase price.

Under current law, a property's assessed taxable value is generally set at its purchase price, and annual increases are limited to 2 percent or the rate of inflation (whichever is lower). Assessed value resets to market value only when the property is sold. As a result, for most properties, assessed values are well below market values.

Proposition 15 is often referred to as "split roll" because, if enacted, it would introduce different taxation based on a property's use or "class." The proposition would not change how residential property is taxed in California. Agricultural properties would also be exempt, as would properties owned by individuals or businesses with less than $3 million in total California property holdings.

Another provision of the proposition would eliminate personal property taxes for small businesses (those with 50 or fewer employees). All other businesses would be exempt from taxes on the first $500,000 in value of their personal property.

The proposition would generate an additional $6.5 billion to $11.5 billion in revenue for most years.[1] For context, California collects more than $60 billion in property taxes annually. Revenue from the proposition would be split among K–12 public schools and community colleges (40 percent) and other local government services (60 percent) such as infrastructure, police protection, and hospitals.

The new commercial property tax revenue would also shift California's state and local revenue mix. Since voters passed Proposition 13 and thus limited California's local property taxes, California has increasingly relied on state income tax revenue.[2] Although income taxes have benefits, such as making the overall tax system more progressive, they also make the revenue system more volatile.[3]

To help inform policy debates about Proposition 15, the Urban Institute is making available the following three briefs:

1. **California's State and Local Revenue System.** This brief compares California's revenue system with national trends. We detail how Proposition 13 shifted revenue collection away from local property taxes toward state income taxes and the fiscal consequences of this change.
2. **California's K–12 Education Needs.** This brief compares California's elementary and secondary education system with other states' systems. Although California's funding per pupil has increased in recent years, California's cost of living is higher than many other states', and its large, diverse population of students, including many living in poverty, requires additional resources and more local control of resources.
3. **California's Infrastructure Challenges.** This brief describes California's infrastructure spending and relates how, despite recent infusions of funds, the state still lacks a stable, predictable, adequate revenue source. This creates problems addressing deferred maintenance backlogs, regional inequities, and challenges preparing for climate change.

Each brief helps readers better understand the proposition and how California's finances and government services could change if it passes.

What Sets California's School Finances Apart

Nationally, elementary and secondary education is the largest category of state and local spending from own-source funds (i.e., excluding federal transfers) and with good reason. A well performing state K–12 education system helps attract and keep residents and jobs, is a vital component of workforce development, and provides a direct route for families and children out of poverty and into the middle class. Further, as has become increasingly clear as schools have closed during the COVID-19 pandemic, the public education system also plays an important role providing child care and nutritional assistance to many children.[4]

California's K–12 education spending is currently in line with national averages. However, what California spends on K–12 education in any year is subject to swings in the economy (such as the recent downturn triggered by the pandemic) because of interactions between the state's progressive but volatile income tax and Proposition 98, which specifies a minimum funding level for public schools and community colleges based on several tests tied to general fund revenue levels and personal income growth.[5]

Indeed, the enacted fiscal year 2021 budget, approved after the pandemic, included a Proposition 98 guaranteed spending amount that was $12.4 billion lower than the targeted funding level (under Test 2). The gap was driven in large part by falling income taxes, which tend to track economic growth and decline.

Beyond its revenue structure, California's large and diverse student body, including a relatively large share of English-language learners, means the state must often spend relatively more than most other states to adequately prepare its students. Education dollars also may go less far in California than in other states because of the state's higher cost of living. Moreover, because of its geographic and income diversity, California must consider not only how much to invest in education but also where to focus its education dollars.

Because of these financing obstacles and education challenges, the state's K–12 education system sometimes produces results below national averages. Some argue that it is in need of both more revenue and more diverse funds to stabilize its resources (Petek 2019).

Proposition 15 would add an estimated $4 billion in annual revenue directly to California's education funding. If passed, the ballot measure could also help address California's revenue volatility by providing a revenue source that does not fluctuate as much with the state's economy. Further, if California were to increase its property tax revenue for local governments, it could increase the local focus on education, thereby potentially producing more effective and equitable results.

Assessing California's K–12 Spending and Public Education Needs

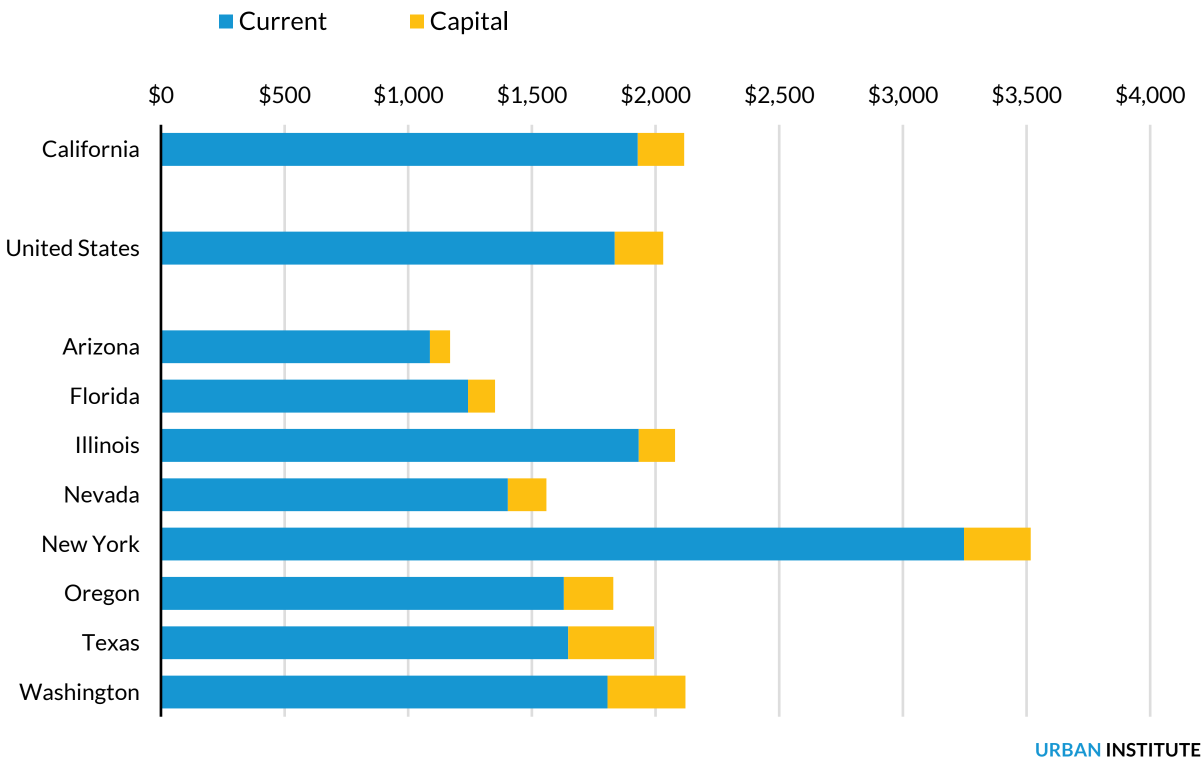
In 2017 (the most recent year for which comprehensive national data are available), California's state and local governments spent $83 billion on elementary and secondary education, or $2,116 for every state resident. The national per capita average was $2,030.

About 90 percent of California's (and all other states') public elementary and secondary education spending was for current expenditures in 2017, such as teacher salaries, textbooks, transportation, and lunch programs. The remaining 10 percent was for capital investments such as school construction. Also like most other states, almost all of California's spending was carried out by local governments, but the funds were raised and provided by federal, state, and local governments.

FIGURE 1

Per Capita K–12 Education Spending

Current and capital spending, 2017



Source: US Census Bureau, Annual Survey of State and Local Government Finances.

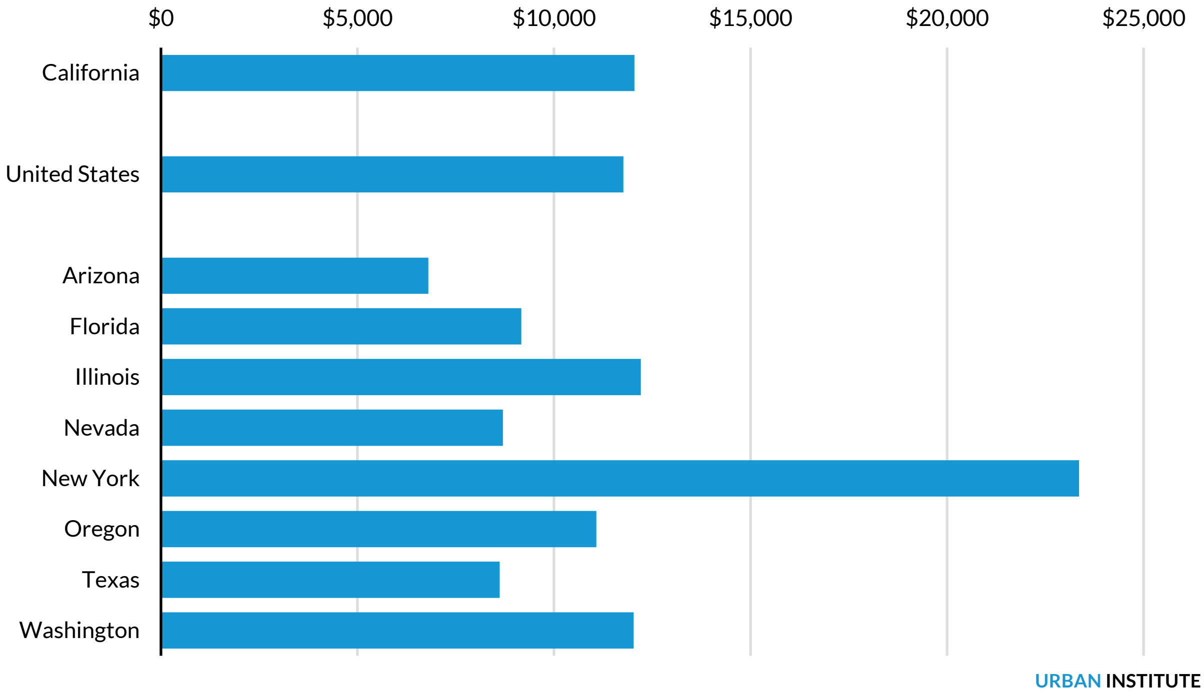
Compared with other western states, California spent more per capita on K–12 education in 2017 than Arizona, Nevada, and Oregon, and spent roughly the same as Washington. Compared with other large states, California spent more than Florida and Texas, about the same as Illinois, and far less than New York.

Looking at current education spending per student, according to national figures, California spent $12,046 per pupil in 2017. The national average was $11,766. California's per pupil spending was higher than neighboring Arizona's and Nevada's and roughly equal to Oregon's and Washington's. Compared with other large states, California's per pupil spending was well above Florida's and Texas's, about the same as Illinois's, and significantly lower than New York's.

FIGURE 2

Per Pupil K–12 Education Spending

Current spending, 2017



Source: Current spending from the US Census Bureau, Annual Survey of State and Local Government Finances; enrollment totals in public elementary and secondary school from National Center for Education Statistics (Table 203.20).

However, because California depends on its volatile income tax, the state's absolute and relative spending per pupil can vary dramatically over time.

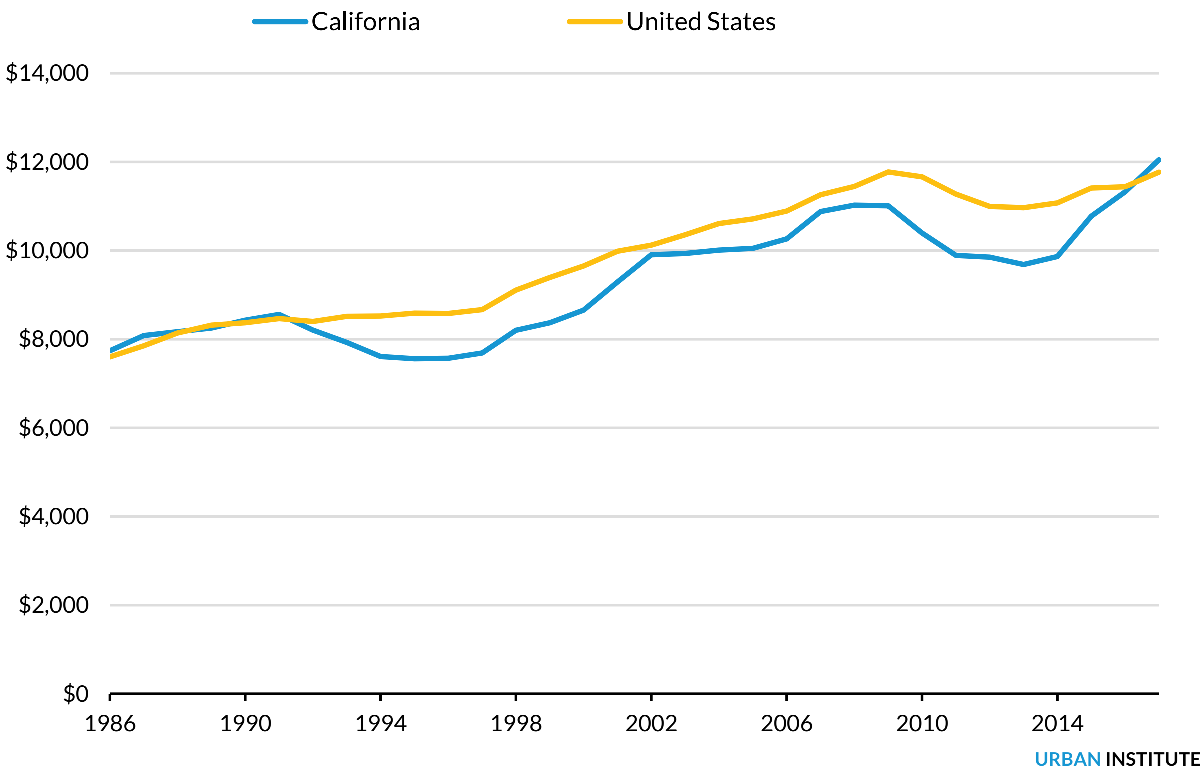
For example, the state Legislative Analyst's Office (LAO) notes that California's per pupil spending fell from 23rd among all the states to 36th from 2007–08 to 2010–11, reflecting a decline in per pupil inflation-adjusted spending from $11,024 to $9,889 as the state and nation dealt with the Great Recession. Overall, California's real per pupil spending fell 12 percent from 2007–08 to 2012–13 before increasing as the state's economy and state and local tax revenues recovered.

In contrast, national real spending per pupil peaked in 2008–09 and declined only 7 percent through 2012–13. Thus, California's spending is only "average" when the economy's growth is strong.

FIGURE 3

Per Pupil K–12 Education Spending, 1986 to 2017

Current spending, inflation-adjusted dollars ($2017)



Source: Current spending from the US Census Bureau, Annual Survey of State and Local Government Finances; enrollment totals in public elementary and secondary school from National Center for Education Statistics.

In his February 2019 State of the State address, Governor Gavin Newson said California ranked 41st in the nation in K–12 education spending.[6] By contrast, a January 2018 report from the LAO said California ranked 29th in per student spending.[7]

The difference between these two metrics is that one adjusts California's K–12 education spending for the costs of living in the state and one does not (Kaplan 2017). Because California is a high-cost state and most K–12 education spending goes to salaries and benefits, the state's spending appears relatively low when adjusted for these costs. For example, a 2016 Urban Institute study found that although California's overall per capita spending on K–12 education ranked in the middle of all states, its payroll costs were eighth highest.[8]

Thus, if figure 3 were to show California's per pupil spending *adjusted for the cost of living*, the state's line would be shifted down and further below the national average (these data are not readily available over the entire period shown). However, the pattern of California's spending falling with economic recessions and rising with economic expansions would hold.

Moreover, because several states are clustered in the middle of the pack, relatively small changes in spending can lead to large swings in a state's relative ranking. For example, if California's per pupil spending was just $100 higher, its ranking would be five spots higher.

California educated roughly 6 million students in its public schools in 2017, or about 12 percent of all public-school students in the country that year. And its student population is diverse: roughly half of California's public-school students were Hispanic, and a quarter were white non-Hispanic. In contrast, those ratios are reversed when examining the nation as a whole.

Almost 60 percent of California students are eligible to receive free or reduced-price school meals and thus are considered low income (the national average is 52 percent). And 21 percent of the state's students are English-language learners, the highest share of any state.[9]

The size, diversity, and needs of California's student population mean state and local governments must provide relatively high K–12 spending to achieve its desired outcomes. Research has shown that students with disabilities, English-language learners, students from low-income households, and those in foster care require more funding to achieve an adequate level of support (Imazeki 2018).

Schools also provide stability to at-risk students and child care for parents. In 2019, over 75 percent of women with school-age children worked outside of the home.[10] For many students, school is a primary source of nutrition. Nearly four million students received meals from California's public schools in the 2018–19 school year.[11]

A consequence of California's high payroll costs and middle-of-the-road education spending is that the state has comparatively larger class sizes (i.e., more students per teacher) than other states. California's pupil-to-teacher ratio is tied for highest in the country at 23.3; the national average is 16. Other western states (Arizona, Nevada, and Oregon) also have pupil-to-teacher ratios above 20. Although Florida and Texas spend less per capita and per pupil, those two states have relatively low pupil-to-teacher ratios because of lower teacher salaries.

TABLE 1

Pupil Teacher Ratios and Average Teacher Salaries

	Fall 2016 pupil-teacher ratio	2016–17 average teacher salary
California	23.3	$80,912
United States	16.0	$61,005
Arizona	23.3	$48,472
Florida	15.1	$48,333
Illinois	15.7	$66,397
Nevada	20.0	$58,669
New York	13.1	$83,748
Oregon	20.4	$63,257
Texas	15.2	$53,760
Washington	18.7	$55,660

Source: Digest of Education Statistics 2018 Table 208.40 and Table 211.60.

California's Education Outcomes

According to Education Week's 2019 *Quality Counts* survey, based on a wide range of academic, school finance, and socioeconomic factors, California's education system ranks in the middle of the pack.[12] Overall, California's system received a "C" grade with a score of 74.1, slightly lower than the national average of 75.6. California also received a C in each of the individual categories measured: chance for success, school finance, and K–12 achievement.

Other state scores ranged from 66.4 in New Mexico to 87.8 in New Jersey. California scored better than its neighboring states except Washington. Looking at larger states, California fared better than Texas, received a similar score as Florida, and fared worse than Illinois and New York.

California received a higher *Quality Counts* score (89, a B+) for equity, highlighting that spending across districts is relatively equal in high- and low-wealth districts. The state received a score of 59 (an F) on spending level, but this was about average for all states because the *Quality Counts* reviewers feel most states are not spending enough. In the 2020 school finance rankings, California's equity and spending ratings improved, receiving an 89.6 (A-) in equity and 64.2 (D) in spending levels.

A recent Urban Institute analysis of National Assessment of Educational Progress (NAEP) data, which measures the performance of fourth- and eighth-grade students on reading and math tests, found that California ranks toward the bottom fifth of all states. This outcome in part reflects the demographic makeup of the student population: when California's NAEP scores are adjusted for demographics, it moves to the middle of all states.[13] California's 2019 scores show some improvement, but the state still ranks similarly when compared with the rest of the country.

One should avoid overinterpreting NAEP data, however. An earlier 2015 Urban Institute study warned that NAEP "scores rarely provide credible evidence that policies are working or failing" (Chingos 2015, v). Other research has highlighted that education policies beyond funding levels can affect student performance. And many unmeasured factors and noneducation policies affect student outcomes (Chingos 2015).

For example, Massachusetts students perform well on the NAEP test, and the state has relatively high per pupil education spending. But some credit the state's test-based accountability system for its high scores; others say those scores are the result of strong teacher unions (Chingos 2015).

However, some evidence also suggests that student outcomes can improve if states move beyond equalizing spending (i.e., providing the same level of resources to each district) to introducing adequate spending requirements (where revenues are allocated in a way that recognizes the higher costs of educating some groups of students).[14]

In 2013, California introduced a major school finance reform, the Local Control Funding Formula. This change gave school districts additional funding based on student demographics. School districts with a higher share of low-income or English-language-learner students received additional funds. The state also gave school districts more control over allocating funds. Research has shown that since 2013, graduation rates and academic achievement have improved, particularly among some poor and minority students (Johnson and Tanner 2018). However, the governor's revised May 2020 budget proposal would reduce funds for this program.

California's Goals and Possible Reform Options

California's inflation-adjusted K–12 education spending and spending per pupil have increased more than 20 percent over the past five years. However, although future spending had been projected to continue increasing, the revenue collapse induced by the COVID-19 pandemic will almost surely cause a decline in statewide education spending.

In fact, the budget approved in July 2020 lowered the Proposition 98 guarantee by $12.4 billion for the 2019–20 and 2020–21 school years. These reductions would be partially restored if federal aid is passed, but that funding is not guaranteed.[15]

The proposed changes to elementary and secondary budgets and the uncertainty around future funding levels highlight the need to ensure stable and adequate funding for education.

Regardless of where exactly California ranks in K–12 education spending, it was not in the top half of all states. It is likely to fall further in response to pandemic-induced revenue changes that are likely to be larger in California than in the average state. This is especially problematic for English-language-learner and low-income students, who are disproportionately affected by the health crisis.

Because of Proposition 98 and the state's reliance on a highly volatile income tax, K–12 education spending is vulnerable to shifts in funding levels, especially during crises such as the current recession. Proposition 2 (passed in 2014) and the Public School System Stabilization Account mitigated this volatility somewhat. But the rules governing deposits are relatively restrictive, and the first deposits were met in the 2019–20 fiscal year. Diversifying the state's revenue base by permitting localities to assess and tax commercial properties based on market values could help stabilize education funding in California.

Notes

[1] The property tax changes would raise between $7.5 billion and $12 billion depending on real estate market conditions. However, these revenues would be offset by decreased personal property and income taxes and increased county administrative costs. "A.G. File No. 2019-008," California Legislative Analyst's Office, October 2, 2019, https://lao.ca.gov/BallotAnalysis/Initiative/2019-008.

[2] Proposition 13 amended the California constitution to roll back assessed property values to 1976 levels, cap property tax rates at 1 percent, and limit growth in assessed values to 2 percent a year unless a property was sold. In addition, it established a concept of "special taxes" and required cities, counties, and special districts to obtain two-thirds voter approval to impose them. Proposition 218, another landmark measure passed in 1996, further limited local governments' ability to impose certain taxes, fees, and assessments. Proposition 26 later broadened the definition of taxes to include some fees and charges. In general, fees may not exceed the

reasonable cost of the proportional special benefit conferred to those charged. See League of California Cities (2017).

[3] For example, California' per capita own-source general revenue declined faster than the national average during the Great Recession but also recovered quicker than most states.

[4] For a discussion of the importance of K–12 schools for child care and nutritional help, see Caroline Danielson and Niu Gao, "Feeding Children When Schools Are Closed for COVID-19," Public Policy Institute of California blog, March 26, 2020, https://www.ppic.org/blog/feeding-children-when-schools-are-closed-for-covid-19/; and Kerry Cavanaugh, "We Can't Reopen the Economy without Child Care," *LA Times*, May 6, 2020, https://www.latimes.com/opinion/story/2020-05-06/working-parents-need-schools-daycares-and-camps-open-first.

[5] Proposition 98, passed in 1988, was intended to increase K–14 education spending (elementary and secondary schools plus community colleges) by setting minimum funding levels. Proposition 98 included two tests for funding from the state general fund and property taxes. Test 1 linked the minimum state funding to 40 percent of general fund revenues. The general result of this test was increases in education support during periods of economic growth. Test 2 adjusted the prior year guarantee for growth in student population and income growth. In 1990, when the state was in the midst of a recession, voters passed Proposition 111 which included a third test that allowed the state to provide a lower level of support than found in Test 2 (Test 3). However, the state was required to make-up for any shortfalls that occurred from meeting this lower requirement when the economy improved. For more information see Taylor (2017).

[6] "Governor Newsom Delivers State of the State Address," news release, Office of Governor Gavin Newsom, February 12, 2019, https://www.gov.ca.gov/2019/02/12/state-of-the-state-address/

[7] "K-12 Education in Context," LAO, January 26, 2018. https://lao.ca.gov/Publications/Report/3736.

[8] "What Everyone Should Know about Their State's Budget," Urban Institute, January 2017, http://apps.urban.org/features/what-drives-state-spending/.

[9] "K-12 Education in Context," LAO, January 26, 2018. https://lao.ca.gov/Publications/Report/3736.

[10] "Employment Characteristics of Families—2019," news release, Bureau of Labor Statistics, April 21, 2020, https://www.bls.gov/news.release/pdf/famee.pdf.

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[12] "Data: Mapping the States on This Year's Quality Counts," Education Week, September 3, 2019, https://www.edweek.org/ew/collections/quality-counts-2019-state-achievement/data-mapping-the-states-on-this-years.html.

[13] "America's Gradebook: How Does Your State Stack Up?" Urban Institute, October 30, 2019, http://apps.urban.org/features/naep/.

[14] Many studies have examined the intersection of school finance reforms, money, and student achievement, sometimes finding conflicting results. These studies highlight that the details of the changes in financing and how the money is spent matters. Lafortune, Rothstein, and Schanzenbach (2018), for example, find that reforms during the adequacy era led to sharp increases in spending in low-income districts and gradual improvements in test scores for students in these districts.

[15] Instead of education funding increasing from $78.4 billion in 2018-2019 to $84.0 billion in 2020-21 as outlined in the Governor's proposed budget in January, the Proposition 98 Guarantee is expected to be $70.5 billion in 2020-2021. This includes decreases in funding for the Local Control Funding Formula and other categorical programs. These changes are highlighted in the revised budget released May 14, 2020. See State of California (2020).

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