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2-2007

### Education Finance in California Part 1: Is California Unique?

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#### Recommended Citation

J. Yinger, 2007. "Education Finance in California Part 1: Is California Unique?," *It's Elementary*, February.

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# *It's Elementary*

A Monthly Column by EFAP Director John Yinger  
February 2007

## **Education Finance in California Part 1: Is California Unique?**

This is the first of three columns on education finance in California. This column describes this system; the next column examines a tax that is unique to California, the parcel tax; and the third column explores lessons from a recent study of the incentives facing voters and school officials in California.<sup>1</sup>

California's education finance system is built on the legacy of two famous events: the Serrano court decision and the passage of the property tax limit, Proposition 13. The 1971 *Serrano* court decision found that California's education finance system was unconstitutional because the funds available for a child's education depended on the wealth in his or her school district. The state responded to this and subsequent rulings by specifying a revenue limit, that is, a particular amount of general-purpose revenue, that each district would receive, and by limiting variation in this limit across districts.

California's famous property tax limit, Proposition 13, places a strict limit on local property taxes. Moreover, the property tax revenue that is available for schools is folded into a district's revenue limit. This step implies that the school property tax in California is essentially a state tax and that a district's general-purpose state aid equals the difference between its revenue limit and its property tax revenue.

These restrictions do not imply, however, that revenue does not vary across school districts, largely because the state has implemented hundreds of categorical aid programs, which are distributed in a very uneven manner across school districts. Indeed, California relies more heavily on categorical aid than most states and by some measures the variation in revenue across districts is larger in California, with its

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<sup>1</sup> This study is "Understanding the Incentives in California's Education Finance System," by William Duncombe and John Yinger, The Maxwell School, Syracuse University, December 2006. This study was prepared for the Getting Down to Facts Project out of Stanford University.

centralized system, than in New York, with its highly decentralized system. New York spends a great deal more on education than California does; in 2003 spending per pupil was \$13,530 in the median school district in New York compared to \$7,721 in the median school district in California. However, the ratio of the 95<sup>th</sup> percentile in spending per pupil to the 5<sup>th</sup> percentile is higher in California than in New York, largely because of California's large variation in categorical aid.

Unrestricted state support for education, which takes the form of the revenue limits, is not adjusted for the higher cost of educating at-risk students, but some categorical aid programs do provide extra resources for children from poor families or children who speak English as a second language. As a result, districts with more disadvantaged students receive more aid per pupil than other districts in California, but not enough to fully compensate them for their extra costs. To be specific, the Education Trust calculates a "poverty gap," which is the funding provided to the 25 percent of districts with the most poverty compared to that provided to the 25 percent of districts with the least poverty, after adjusting for the higher costs of educating students from poor families.<sup>2</sup> This gap is lower in California than in the average state, but it is still quite large, namely, \$534 per pupil.

Overall, California has one of the most centralized education finance systems in the country in the sense that spending in California's school districts is largely determined by the combination of revenue limits and categorical aid programs. Nevertheless, school districts have a few sources of funding over which they have some control. These sources provide only about one-quarter of the local revenue in the average district, but this share has been increasing over time. My next column will discuss one unique source of local revenue in California, namely, a parcel tax, as well as contributions from education foundations.

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<sup>2</sup> Education Trust. 2005. *The Funding Gap 2005*. Available at: <http://www2.edtrust.org/NR/rdonlyres/31D276EF-72E1-458A-8C71-E3D262A4C91E/0/FundingGap2005.pdf>