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Catching Up on California

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It's Elementary

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Catching Up on California

Three years ago, one of my columns (November 2012) described a missed opportunity in California, namely, a failure to pass a state education aid formula that accounted for variation in educational costs across districts. Elected officials in California came back to this issue, however, and passed a new cost-adjusted aid formula, the "Local Control Funding Formula" or LCFF, to be phased in starting in the 2013-14 school year. This was a big step toward a fair funding formula in California.

Four provisions of LCFF are particularly noteworthy.[1]

First, LCFF defines "targeted disadvantaged students" as students who are English learners, eligible to receive a free or reduced price lunch, and/or receiving foster care, and then provides extra funding equal to 20 percent of the base amount per pupil for each of these students. This provision does not involve any double counting. A student in all three of these categories, for example, still counts as a single disadvantaged student.

Second, LCFF increases this extra funding to 50 percent of the base amount per pupil for targeted disadvantaged students who represent more than 55 percent of a school district's enrollment.

These two provisions speak directly to the extensively documented higher educational costs for disadvantaged students, and bring California's treatment of this issue in line with most other states.[2]

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[1] For more information on this new formula and related accountability reforms, see California Department of Education, "Local Control Funding Formula Overview." Available at: http://www.cde.ca.gov/fg/aa/lc/lcffoverview.asp ; EdSource, "Local Control Funding Formula Guide." Available at: http://edsource.org/publications/local-control-funding-formula-guide ; and Laura Hill and Iwunze Ugo, "Implementing California's School Funding Formula: Will High-Need Students Benefit?" Public Policy Institute of California, San Francisco, March 2015. Available at: http://www.ppic.org/main/publication_quick.asp?i=1127 .

[2] A review of cost-function studies can be found in William D. Duncombe, Phuong Nguyen-Hoang, and John Yinger, "Measurement of Cost Differentials," In *Handbook of Research in Education Finance and Policy*, 2nd Edition, M.E. Goertz and H.F. Ladd, eds. (New York: Routledge, 2015), pp. 260-278. A description of student-need adjustments in other states can be found in Yao Huang, "A Guide to State Operating Aid Programs for Elementary and Secondary Education, in *Helping Children Left Behind: State Aid and the Pursuit of Educational Equity*, edited by J. Yinger (Cambridge, MA: The MIT Press, 2004), pp. 331-352.

As discussed in the November 2012 column, William Duncombe and I estimated an educational cost function for California.[3] This cost function indicates the cost of reaching various levels of California's Academic Performance Index (API), a composite measure of student test scores across grades and subjects, which was, at the time, a key component of the state's accountability system. We found that to reach a given value of the API, education costs are 56 percent higher for a student from a poor family than for a student from a non-poor family and 55 percent higher for a student with limited English proficiency than for a student proficient in English. These results support LCFF's high cost adjustments in districts with high concentrations of disadvantaged students, but also suggest that the basic adjustment of 20 percent may be too low. To the best of my knowledge, no academic study has documented that the added cost per disadvantaged student is higher in districts where disadvantage is concentrated, but few existing studies look for this effect and it might still prove to be true. This is a good topic for further research.

The lack of cumulative disadvantage in the California formula is also worth discussion. The Duncombe/Yinger estimates for California indicate that the impacts of poverty and limited English are cumulative. This result suggests that the new California formula understates educational costs in districts where many students fall into both categories. This issue is not resolved by our estimates, however, because our data did not allow us to determine the overlap between the poverty and limited English categories. If few students fall into both categories, then the LCFF formula is consistent with our result, but if the two categories overlap extensively, which appears to be the case, then the LCFF formula understates, perhaps dramatically, the added costs of disadvantaged students in some districts.[4]

Third, the LCFF formula provides an extra 10.4 percent funding above the baseline amount per pupil for students in early elementary grades, kindergarten through third. This extra funding is supposed to be devoted to lowering class sizes. This provision may appear at first glance to contradict the result in the Duncombe and Yinger study that the cost per pupil is lower in elementary-only school districts than in unified districts. It is important to remember, however, that the Duncombe/Yinger results apply to the cost of achieving student performance measured by the API, which is dominated by tests in non-elementary grades. An alternative API weighted toward elementary scores might yield a different result. Moreover, several good studies find that smaller class sizes significantly boost elementary school performance, particularly for disadvantaged students.[5] Thus, a good case can be made for this extra elementary

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[3] William D. Duncombe and John Yinger, "Making Do: State Constraints and Local Responses in California's Education Finance System," *International Tax and Public Finance* 18 (3) (June 2011): 337-368

[4] The Hill/Ugo article in footnote 3 finds that "All foster youth are eligible for free and reduced-price meals, as are approximately 75 percent of EL students."

[5] A review of these studies can be found in Matthew M. Chingos and Grover J. "Russ" Whitehurst, "Class Size: What Research Says and What it Means for State Policy," The Brookings Institution, Washington, D.C., 2011: Available at: http://www.brookings.edu/research/papers/2011/05/11-class-size-whitehurst-chingos.

funding. Experience with an earlier class-size-reduction plan in California reveals, however, that the rapid implementation of such a plan could lead to enormous difficulty in finding enough qualified teachers the fill the new, smaller classes.[6] LCFF appears to have a reasonable, incremental approach to this issue.

Fourth, the new formula provides an additional 2.6 percent funding above the baseline for every student in high school. This provision is consistent with the finding in Duncombe and Yinger that high-school-only districts have higher per pupil costs than do unified districts.

These provisions are all steps in the right direction, but one important issue is not addressed in the LCFF formula, namely, the higher cost of attracting teachers in high-wage labor markets. Wages are the largest item in a school district's budget, so variations in the wages required to attract teachers of a given quality have a large impact on a district's costs. The Duncombe/Yinger study estimates that a 10 percent increase in comparable private wages in a district's labor market area lead to a 9.2 percent increase in a district's costs—that is, on what it must spend to achieve a given level of student performance.[7] The wage environment varies widely across California. Wages are higher in larger urban areas, and one study finds that comparable private wages are 50 percent higher in some places than in others. Moreover, these differences are obviously outside the control of local officials.[8] It makes no sense to punish a school district because it is located in a high-wage region, so an adjustment for regional wage differences would constitute another step toward a fair state aid formula in California.

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[6] See Christopher Jepsen and Steven Rivkin, "Class Size Reduction, Teacher Quality, and Academic Achievement in California Public Elementary Schools," Public Policy Institute of California, San Francisco, 2002. Available at: http://edsource.org/wp-content/uploads/r_602cjr.pdf .

[7] The phrasing of this sentence is intuitively correct, but not technically precise. The Duncombe/Yinger estimating procedure includes a district's minimum salary, which is the wage for starting teachers, in the cost estimation and treats this variable as endogenous. The "instrument" used in the endogeneity correction is the wage in comparable jobs in the labor market areas. For more on the relationship between comparable private salaries and teacher salaries in California, see Heather Rose and Ria Sengupta, "Teacher Compensation and Local Labor Market Conditions in California: Implications for School Funding," Public Policy Institute of California, San Francisco, March 2007. Available at: https://cepa.stanford.edu/sites/default/files/23-Rose%283-07%29.pdf .

[8] For example, the Rose/Sengupta study in the previous footnote estimates a comparable private salary of $63, 132 in Santa Clara but only $41,043 in the North Coast Region.