

# Education Finance and Accountability Program (EFAP)

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## *It's Elementary*

A Monthly Column by EFAP Director John Yinger

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### Education Finance in California, Part 3: Lessons

In a recent report, William Duncombe and I examined the California education finance system and the incentives it creates for voters and school officials. This column presents some of the key conclusions in this report.<sup>1</sup>

First, we find that in California, as in other states, the cost of education is not the same in every district. Specifically, we estimate that the cost of obtaining a given level of

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<sup>1</sup> This report 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.

student performance is 23 percent higher for a poor than for a non-poor child and 32 percent higher for an English learner than for a student who is fluent in English.<sup>2</sup>

In addition, we find that in California, as in other states, school districts located in relatively high-wage labor markets must pay more to attract teachers of any given quality. To be specific, a 10 percent increase in the opportunity wage leads to a 7.1 percent increase in school costs. We also find that educational cost per pupil is 7 percent higher in high school districts and 17 percent lower in elementary school districts than in unified districts, all else equal.

Taken together, these factors lead to large cost differences across districts. These cost differences are not systematically considered in California's education finance system, so high-cost districts do not receive the funding they need to reach the same performance levels as low-cost districts.

Second, we find that California's extensive use of categorical grants (see my February 2007 column) has negative consequences for California's education finance system. Because they tie the hands of school officials and require extensive paperwork, California's categorical grants raise the amount of money a district must spend to reach any given level of student performance. A district that received all its aid through categorical grants would have to spend about 50 percent more to achieve the same performance target than a district with the same amount of unrestricted aid.

This result implies that categorical aid programs in California are not, as a whole, an effective way to boost student performance. Because student performance is the focus of

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<sup>2</sup> These extra costs are lower than those my co-authors and I have estimated for New York State. This might reflect differences in measures of performance across these two states (since these are the extra costs of achieving state-specified student performance targets) or unidentified differences in the states' school environments.

California's accountability system, California's categorical grants and accountability system appear to be working at cross purposes.

Third, we find that the extensive equalization of funding in California has not been accompanied by an equivalent equalization in student performance. As explained in my February 2007 column, a district's revenue limit is the state-specified unrestricted revenue it receives. The rules in California were designed to gradually lower differences in revenue-limits across districts. We find that districts with declines in their revenue limits over time, which are relatively wealthy and high-performing districts, tend to have lower costs per pupil, controlling for student performance, than districts with increases in their revenue limit over time.

This result suggests that principals, other school supervisors, and parents in high-performing districts have come to expect high performance and engage in relatively intensive monitoring. It also suggests that these districts have established favorable working conditions that make it relatively easy for them to attract the best teachers. Thus, some portion of the disparities in student performance that existed before *Serrano* would be preserved even if differences in revenue limits were fully eliminated.