

Education Finance

January 22, 2019

Production of Education

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- We can thinking about education system to other systems that produce goods. We want to optimize a set of inputs to produce the best output while minimizing costs
- One large role economists in education play is helping think about the type and level of inputs to use
- With that said, why has it been difficult to come to a consensus on the benefit of specific inputs (e.g. class size)?

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- There are two broad debates related to the production of education
- How much money should be spent on inputs?
- How should we allocate inputs?
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Changes in Education Funding

- Initially, all education policy was decentralized.
 - Lots of small school districts.
 - Almost all funding came from local sources.
 - Education was pretty cheap.
- In 1940:
 - There were $\sim 120,000$ school districts.
 - Per-public expenditures were roughly \$2,000 (in 2011 terms).
 - Almost 70% that came from local sources.
- By 2010:
 - There were $\sim 13,000$ school districts.
 - Per-public expenditures were roughly \$12,000 (in 2011 terms).
 - About 40% that came from local sources, about 40% from the state, and about 10%.
- **Question:** How did that happen? What caused the changes?

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Two Major Changes

- Elementary and Secondary Education Act (ESEA)
 - Part of President Lyndon B. Johnson's "War on Poverty"
 - Title I provides funding for low-income students.
 - Increased the federal governments involvement in education and gave it a way to add incentives to schools.
 - For example, the No Child Left Behind made the receipt of Title I funds conditional on schools having some form of accountability and required states that received Title I funds to give assessments.
- School Finance Equalizations
 - Local financing of public schools almost always leads to more inequality.
 - Beginning in the 1970s, numerous state lawsuits argued that the inequality was not constitutional according to state constitutions.
 - This lead to lots of attempts to centralize school financing.
 - States varied in the ways they centralized school financing; some did it well and some did not.

California's History

- Serrano v Priest (1971)

- Education is a fundamental constitutional right and that the inequities produced by local financing violates the equal protection clause of the state constitution.
- In response, the state legislature passed SB 90 which established a new funding scheme combining state aid and local property taxes to increase parity.

- Prop 13 (1978)

- Proposition 13 limited local property taxes to 2% annual increases, leading to much lower revenues for local districts.
- In response, the state legislature passed AB 8 which shifted lots of tax revenue to local governments and created a state fund to support schools.

- What is the connection between the Serrano v Priest decision and the passage of Proposition 13?

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California's History

- Authorization of the State Lottery (1984)
 - In California, like most states, a large chunk of the funds (34%) collected from the lottery go to schools.
- Prop 98 (1988)
 - Provides a minimum funding guarantee for school districts.
 - The minimum guarantee depends on the amount of state revenue, so is quite volatile.
 - Sets a minimum state spending level for K-12 school and community colleges at roughly 40 percent of the state's general fund
- Prop 30 (2012)
 - Increases state income taxes on high earners, with the revenue in part going to fund public schools.

California Overview

LAUSD Funding

- Program Revenue: \$2.1 bn
 - \$1.8 bn of this comes from “operating grants and contributions”
- General Revenue \$6.7 bn
 - Property Taxes: \$2.4 bn
 - State Aid: \$3.9 bn
- Overall:
 - 44% of funding from state aid
 - 27% of funding from property taxes
 - 21% of funding from operating grants and contributions
 - 8% of funding from other sources

LAUSD Expenditures

- Instruction: \$4.5 billion (salary and benefits)
- Student Support Services: \$460*m*
- Instructional Staff Support Services: \$584*m*
- School Administration Support Services: \$512*m*
- Operation/Maintenance of Plant Services: \$780*m*
- Student Transportation: \$186*m*
- Non-instructional services: \$528*m*