

# Education Finance

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# Production of Education

- While we'll mostly talk about school finance today, the next few weeks are parts of research on the “production” of education.
- 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)?

# Production of Education

- There are two broad debates related to the production of education
- How much money should be spent on inputs?
- How should we allocate inputs?
- For the rest of this week we will focus on the first point, and return to the second point throughout much of the next four weeks.

# 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?

# 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?

# 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*