More Freedom to Spend Less Money
What Happened When California School Districts Gained Spending Flexibility and Budgets Were Cut

California, like other states, faces hard decisions about how to allocate funds to its schools. Some argue for targeting funds to particular programs—a practice known as categorical funding. Others advocate giving schools and districts flexibility in using their funds. Yet there is no clear evidence about the outcomes from either approach.

In 2007–08, roughly 40 percent of California’s state funds for K–12 education were categorical and therefore had to be spent for particular purposes. The state reduced funding for those programs by 20 percent the following year and simultaneously removed the restrictions from 40 of the 60-plus categorical programs to give districts fiscal flexibility. For these 40 programs, known as the “Tier 3” programs, which account for $4.5 billion of funding, the state gave districts the ability to use the funds in any manner approved by the local school board. This deregulation provided policymakers and local educators a chance to learn what happens when local authorities gain control over a large proportion of funding, albeit while coping with sharp cutbacks in most districts.

In 2010, researchers at the RAND Corporation, the University of California at Berkeley and Davis, and San Diego State University joined to study the impact of this new policy. Their objective was to understand how districts responded to the fiscal flexibility, particularly how they allocated resources and changed their spending. This information is important in light of Governor Jerry Brown’s proposal to end many of the remaining categorical programs and dramatically increase districts’ ability to spend their budgets as they wish.

The research team surveyed 350 chief financial officers (CFOs) in districts statewide and also tracked districts’ Tier 3 revenue and spending data through the state’s Standardized Account Code Structure (SACS). The findings shed light on how districts responded to increased flexibility in the face of budget cuts. The team’s recommendations aim to inform policymakers on how to improve the structure and implementation of Tier 3 reform and related proposals that shift greater budget authority from the state to local school boards.

**Key Findings**
- Districts did not make large-scale changes to how they spent state funds. The analysis of SACS accounting data did not find major changes in spending patterns. As budgets shrank, districts tried to protect certain priorities, particularly teaching staff and special education programs. While there was considerable variation in how districts responded to the budget cuts and Tier 3 flexibility, this did not appear to be related to observable district characteristics.
- Districts with higher levels of Tier 3 funding were not disproportionately affected by funding cuts. Large, urban, and high school
Funding flexibility benefited many stakeholders but may have adversely affected certain groups in some locales. CFOs widely agreed that flexibility helped districts avoid layoffs and salary reductions. They also reported that the funding reductions for some long-standing programs caused little conflict among parents and other stakeholders. Nearly 80 percent of CFOs believed that the reform did not harm low-achieving students by allowing resources to be shifted away from them. However, CFOs in some large districts, urban districts, and districts serving English learner and minority populations were more likely to express concern that Tier 3 funds flowed away from these high-need students.

Recommendations

The California legislature must decide by 2015 whether or not to continue Tier 3 flexibility. Governor Brown has proposed expanding it to about $7.1 billion in deregulated funding. In considering this proposal and future reforms, the research team recommends that policymakers and education stakeholders address the following issues.

• The legislature and governor should clearly state the purposes of fiscal flexibility, to reduce confusion at the local level. The debates about this approach center on two intertwined issues—which education programs will receive funding and who will make budget decisions? The state should send clearer signals if it has preferences about local priority setting and participation in decisionmaking.
• The state should explicitly state its priorities for improving the performance of low-achieving students or advancing certain types of reforms.
• State policymakers should either directly evaluate or require districts to evaluate the impact of the policy to determine which students, schools, and programs benefit from fiscal flexibility and which do not. Little is known about what happens to the programs that are most likely to lose their funding under deregulation—such as art, music, and adult education—and how these changes will affect students and communities.

This research brief describes work done by RAND Education documented in Deregulating School Aid in California: How Districts Responded to Flexibility in Tier 3 Categorical Funds in 2010–2011, by Brian M. Stecher, Bruce Fuller, Tom Timar, and Julie A. Marsh, TR-1229-WFHF/DCKF/STF (available at http://www.rand.org/pubs/technical_reports/TR1229.html) 2012, 122 pp., $28.95, ISBN: 978-0-8330-7642-7; and Deregulating School Aid in California: Revenues and Expenditures in the Second Year of Categorical Flexibility, by Jennifer Imazeki, TR-1229/1-WFHF/DCKF/STF (available at http://www.rand.org/pubs/technical_reports/TR1229z1.html) 2012, 70 pp., $19.95, ISBN: 978-0-8330-7520-8. This research brief was written by Jennifer Li. The RAND Corporation is a nonprofit institution that helps improve policy and decisionmaking through research and analysis. RAND’s publications do not necessarily reflect the opinions of its research clients and sponsors. RAND® is a registered trademark.
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