Research Brief

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Policy Analysis for California Education PACE

More Freedom to Spend Less Money

What Happened When California School Districts Gained Spending Flexibility and Budgets Were Cut

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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.

Abstract

In 2009–2010, California made substantial education budget cuts at the same time that it removed its spending requirements from $4.5 billion of state money. This gave districts the flexibility to use the funds in any manner approved by the local school board. Researchers found that most of the formerly earmarked money was moved into general funds and that the changes did not disproportionately affect high-need students. Districts' top priorities in allocating the newly flexible funds were preserving fiscal solvency, retaining staff, and preserving current instructional programs.

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

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districts historically received a greater share of their funding from Tier 3 revenues. The bulk of these districts serve higher proportions of high-need students—English learners, low-performing students, and those from poor families.

Given that funding for Tier 3 programs was reduced by 20 percent—which was higher than the 15 to 18 percent statewide cut in other funding—some were concerned that districts receiving higher levels of Tier 3 funding would be disproportionately affected. However, the analysis found that these districts lost a similar share of their state funding as other districts, although the reductions did represent larger per-student dollar amounts.

Most Tier 3 monies were reallocated into general funds. According to CFOs, most districts moved Tier 3 dollars from the categorical programs into general funds. Two Tier 3 programs that were more likely to be moved into districts' general fund were the Professional Development Block Grant and Targeted Instructional Improvement Block Grant. Other programs that frequently lost funding included those not essential to core subjects, such as art, music, and the Gifted and Talented Education program. But some programs were less likely to have their funding reallocated, like those preparing students for the California High School Exit Exam.

CFOs reported three top priorities: preserving fiscal solvency, retaining staff, and preserving current instructional programs. Districts gave the highest priority to these three goals, although about one-third of CFOs also reported aligning spending with "school improvement goals" as a high priority, and a few reported allocating newly flexible dollars to instructional reforms. CFOs in urban districts were significantly more likely to give priority to funding new initiatives, compared with rural or suburban CFOs.

Most major decisions about Tier 3 funding were shaped by a few district officials. CFOs reported that the superintendent and district staff made most major spending decisions. Despite some claims that school principals would gain greater control over resources, they rarely gained fiscal discretion from the Tier 3 reform. Other stakeholders, such as parent groups, community members, and union leaders, also had little influence over the spending of the newly flexible funds. However, in large and urban districts, these groups were reportedly more involved in the budget process.

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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