8. Is There a Better Response to Serrano?

by Jon Sonstelie

Summary

Over the last 30 years, California has transformed its system of school finance. In 1970, the state provided foundation aid to school districts, which set their own property tax rates. Now the state determines the amount of revenue each district receives, and districts have little fiscal authority or revenue flexibility.

This transformation was initiated by two events: the 1971 decision of the California Supreme Court in *Serrano v. Priest* and the 1978 passage of Proposition 13. The state legislature’s response to those events shaped California’s current school finance system. In the immediate aftermath of the *Serrano* decision, the legislature focused on equalizing revenue across school districts. In retrospect, revenue equalization was a more radical reform than equalizing tax bases across districts, which was also an option. Following the passage of Proposition 13, the legislature focused on allocating property tax revenue among local jurisdictions, including school districts. This response eventually deprived these jurisdictions of their taxing authority. Another option would have been to allow jurisdictions to set their own tax rates subject to state-designated limits.

This essay describes these key events, the legislature’s responses to them, and the resulting transformation of California’s system. It then evaluates the current finance system against general standards of equity, flexibility, and adequacy. Over the last generation, California has achieved considerable revenue equality across districts. Measured in those terms, California has moved from one of the least equal states to one of the most equal states. However, the system has not performed
well in other important areas. In focusing on revenue equalization, for example, the legislature appeared to ignore taxpayer equity. As a result, taxpayers pay very different tax rates for their schools, yet those schools receive essentially the same revenue per pupil. The current system also gives school districts little flexibility to respond to the special needs of their constituents. School districts may levy a parcel tax, but this option is not viable in many areas. Last, the current system may not provide adequate resources for California school districts. In 1999, for example, the pupil-teacher ratio was 34 percent higher in California than in the rest of the country.

The essay concludes by proposing an alternative finance system for California schools. That system begins with a base revenue per pupil for each school district. The base is funded by state funds and a primary property tax rate, which is the same for all districts. To supplement their revenue, districts may levy a secondary property tax rate up to a specified limit. Funds from this secondary rate would be equalized across the state so that districts levying the same rate would have the same revenue per pupil.

The proposed system satisfies *Serrano* because school districts with the same property tax rate have the same revenue per pupil. It is also consistent with Proposition 13 because it caps the property tax rate for schools below 1 percent. In addition to satisfying these two constraints on school finance in California, the proposed system has at least four virtues. First, it is more equitable to taxpayers because it equalizes tax rates across school districts. Second, it allows districts some revenue flexibility. Third, it provides feedback to the legislature because voters can indicate their willingness to pay for more public education. If most school districts set their secondary tax rate at the cap, voters will have signaled their willingness to spend more public funds on their schools. If most school districts choose not to levy a secondary tax, legislators can be reasonably sure that voters prefer lower property taxes to more school funding. Finally, the proposed model is compatible with a recent proposal by the Legislative Analyst to reform the financing of other local governments.
Introduction

In many respects, California’s system of school finance resembles those of other states. School districts receive substantial property tax revenue, and the state government supplements this revenue through various aid programs. However, California’s system is different in one important respect. Only in California does the state government determine how much property tax revenue each district may receive.

At one time, California’s school districts had the authority to set their own property tax rates. They lost that authority as a consequence of two events: the 1971 ruling of the California Supreme Court in *Serrano v. Priest* and the 1978 passage of Proposition 13. In *Serrano*, the court found the existing system of school finance unconstitutional because taxable property varied widely across school districts. By passing Proposition 13, the voters of California limited the property tax rate and the growth in assessed values. In tandem, the two events forced the state legislature to design a new role for the property tax and a new system for financing schools.

This essay describes these events, the legislature’s responses to them, and the resulting transformation of California’s system. It then evaluates the current finance system against general standards of equity, flexibility, and adequacy. Is it equitable for school districts and for taxpayers? Do school districts have sufficient revenue flexibility to respond to the demands of their constituents? Does the current system provide adequate revenues for California schools? In each of these areas, the essay identifies significant concerns.

The essay concludes by proposing a new finance system that would address those concerns. The new system would satisfy the *Serrano* requirements, but it would also strike a balance between revenue equity and revenue flexibility at the district level. To comply with Proposition 13, it would maintain strict limits on property tax rates, but it would also be fairer to taxpayers than the current system. Finally, the system would have an automatic mechanism to signal whether public schools were adequately funded.
The Transformation of Taxing Authority

Some observers portray California’s current school finance system as the inevitable consequence of historical events outside the legislature’s control. In fact, the legislature had many options, some of which are still viable. Perhaps the best way to demonstrate this point is to compare these options to the legislature’s actual decisions.

The Finance System Before Serrano

In 1970, each school district set its own general-purpose property tax rate. The state limited that rate, but each district could override its limit by a majority vote of its citizens. Almost all districts exceeded their limits, implying that property tax rates were essentially determined by local referendum. School districts could also levy special-purpose tax rates without a referendum.

At the same time, the state government provided aid to school districts through its foundation program. Foundation aid was a block grant per pupil that varied inversely with a district’s assessed value per pupil; that is, districts with relatively low assessed value per pupil received relatively high foundation aid. The state government also provided revenue to schools through categorical programs, although these programs were small by today’s standards.

Tax rates differed widely across school districts. Districts with high property tax rates tended to have high total revenue per pupil. Figure 8.1 illustrates this relationship for unified districts with more than 2,500 students. The horizontal axis measures a district’s total tax rate, and the vertical axis measures the sum of its property tax revenue and foundation aid per pupil. The positive relationship between tax rates and total revenue also held for smaller unified districts and for elementary and high school districts.

As the figure also illustrates, this relationship was far from perfect. Districts levying the same tax rate could have very different revenue per pupil. For example, San Francisco Unified and Los Angeles Unified levied the same property tax rate, but revenue per pupil in San Francisco was 60 percent higher than in Los Angeles. This difference resulted from San Francisco’s higher assessed value per pupil. Los Angeles received
School district property tax rate, %

Revenue per pupil, $400

SOURCE: California State Controller.

NOTE: Unified districts with more than 2,500 students. The tax rate is the sum of the general-purpose and special-purpose property tax rates. Revenue is property tax revenue plus state foundation aid.

Figure 8.1—Tax Rates and Revenue in 1970

more foundation aid per pupil than San Francisco, but this additional aid was not enough to offset the difference in assessed value.

Serrano v. Priest

These differences in assessed value were the primary focus of Serrano v. Priest. The plaintiffs in Serrano maintained that California’s school finance system violated the equal protection clause of the Fourteenth Amendment, which prohibits state laws that discriminate among individuals. The court relies on two criteria in such cases. First, the state law must affect the exercise of a fundamental interest. For example, Virginia’s poll tax was found unconstitutional because the tax made it less likely that low-income citizens would exercise their fundamental interest to vote. Second, the discrimination among individuals must involve a suspect classification, such as race or income. If both criteria are met, the court applies the standard of strict scrutiny, which requires
that the state show a compelling interest justifying the law in question and that the law is necessary to accomplish that interest.

The *Serrano* plaintiffs argued that California’s school finance system violated several principles of equal protection. One of these principles, now known as fiscal neutrality, was first articulated by Coons, Clune, and Sugarman (1970). It holds that “The quality of public education may not be a function of wealth other than the wealth of the state as a whole.” Coons and his colleagues defined the quality of public education simply: “Quality is the sum of district expenditures per pupil; quality is money.” Fiscal neutrality does not mean that all districts must have the same expenditures per pupil; districts can have different expenditures if they have different tax rates. Rather, it means that districts with the same tax rate should have the same revenue per pupil.

Although Coons and his colleagues maintained that many different finance systems would satisfy their principle, they also advanced a reform that would establish equity with little change in the finance or governance of schools. Under that reform, called district power equalization, state aid to a district would equal the difference between the district’s property tax revenue and what that revenue would be if the district’s tax rate were applied to a standardized level of assessed value per pupil. Because the standardized level would be the same for all districts, districts with the same property tax rate would have the same revenue per pupil.

When the *Serrano* suit reached the California Supreme Court in 1971, the plaintiffs emphasized the fiscal neutrality argument. They argued that education is a fundamental interest, that a school district’s assessed value affects the exercise of that interest, and that classification on the basis of assessed value is suspect. The defendants countered that California’s system of school finance was necessary to accomplish a compelling state interest, which was “to strengthen and encourage local responsibility for control of public education,” a phrase from the Education Code. The court accepted the plaintiffs’ argument that education is a fundamental interest and that assessed value is a suspect
classification. It also rejected the defendants’ claim that the state’s finance system was necessary to accomplish a compelling interest.\footnote{Serrano v. Priest, 5 Cal. 3d 584; 487 P.2d 1241; 96 Cal. Rptr. 601.}

The court also broke the question of local control into two parts: decisions about how a district’s revenue should be spent and decisions about how much revenue a district should have. Regarding the first part, the court noted that the state’s system was not necessary to accomplish the interest of local control. As for the second part, it concluded that under California’s system, “fiscal freewill is a cruel illusion for the poor school districts,” and that “The poor district cannot freely choose to tax itself into an excellence which its tax rolls cannot provide.” It then sent the case back to Superior Court to determine its facts, which essentially meant determining whether differences across school districts in assessed valuation per pupil led to differences in revenue per pupil.

The state legislature reacted immediately to the \textit{Serrano} ruling, but it chose not to follow the path laid out by Coons and his colleagues. Instead of implementing district power equalization, it set the state on a path toward the more radical reform of revenue equalization. In SB 90, enacted in 1972, the legislature established revenue limits for school districts. A district’s revenue limit was a limit on the sum of its property tax revenue and noncategorical state aid. School districts were assigned different growth rates in their revenue limits, depending on their revenue per pupil. High-revenue districts had low growth rates, and low-revenue districts had high rates. Over time, these different growth rates would cause revenue per pupil to converge across districts. However, the law allowed districts to override their limits by majority vote of their citizens. Because almost all districts had already approved their existing tax rates by referendum, the override provision vitiated the convergence process.

By the time the \textit{Serrano} case reached Superior Court for trial, SB 90 had been enacted. Thus, it was California’s system as amended by SB 90 that was judged against the standards prescribed by the state Supreme Court. In his ruling, Judge Bernard Jefferson took the state one more step down the revenue equalization path. He appeared to endorse the concept of revenue equalization by finding fault only with the speed and
certainty with which revenue would be equalized. In expressing his
discontent, he implicitly set a standard that is perhaps the most lasting
legacy of the Serrano suit. Judge Jefferson found the existing system
deficient because it permitted

wealth-related disparities between school districts in per-pupil expenditures,
apart from the categorical special needs programs, that are not designed to, and
will not reduce to insignificant differences, which mean amounts considerably
less than $100.00 per pupil, within a maximum of six years from the date of
entry of this Judgment.2

Thus were born the Serrano revenue bands, which dominate school
finance discussions in California to this day.

Before reaching this conclusion, Judge Jefferson had to contend with
the ruling of the U.S. Supreme Court in San Antonio Independent School
System v. Rodriguez.3 Rodriguez was a Texas case brought in federal court
and modeled on the plaintiffs’ argument in Serrano. The U.S. Supreme
Court rejected the argument, in part because it ruled that education is
not a fundamental interest protected by the U.S. Constitution. That
decision was a problem for the Serrano plaintiffs and the California
Supreme Court, which had relied almost exclusively on the U.S.
Constitution in reaching its decision. The Serrano plaintiffs
subsequently argued that the California Constitution made education a
state responsibility and thus it was a fundamental interest in California.
They also argued that California’s Constitution had equal protection
language similar to the U.S. Constitution, a point noted by the court in
its original decision. Judge Jefferson, and later the California Supreme
Court, endorsed this argument.

Although the California courts brushed off the Rodriguez ruling, it
had a profound effect in other states. In light of Rodriguez, plaintiffs in
other states focused on state courts and education clauses in state
constitutions rather than the equal protection clause of the U.S.
Constitution. As a result, other states have been more concerned with

2 Serrano v. Priest, 18 Cal. 3d 728; 557 P. 2d 929; 135 Cal. Rptr. 345.
3 See Elmore and McLaughlin (1982) for a description of this case.
school finance adequacy rather than equity. For these states, California-style reform was the path not taken.⁴

**Proposition 13**

The Jefferson ruling was appealed to the California Supreme Court, which supported it in a 1976 ruling. The legislature responded by enacting a new state aid program that incorporated elements of district power equalization. However, this new program was never implemented because of the passage of Proposition 13, which limited the total property tax rate to 1 percent, less than half the average property tax rate at the time.

The legislature was then left with the task of determining how this overall property tax limit would apply to local jurisdictions. One possibility was to assign tax rate limits to each. Instead, the legislature focused on the allocation of property tax revenue. Under the terms of AB 8, property tax revenue was allocated to local jurisdictions in proportion to their property tax receipts before Proposition 13. AB 8 also increased state aid to these local jurisdictions. In the case of school districts, noncategorical state aid became the difference between a district’s revenue limit and its property tax revenue under the state allocation formula.⁵

Proposition 13 and AB 8 closed the override loophole in the legislature’s revenue equalization scheme and effectively deprived school districts of their power to set their own tax rates. A district could reduce its property tax revenue, but state noncategorical aid would not offset that reduction.⁶ Significantly, no district has exercised this option.

When combined with a roughly 50 percent reduction in local property tax revenues at the state level, the loss of the override option converted a district’s revenue limit into a hard and relatively low ceiling.

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⁴See Minorini and Sugarman (1999a) for a description of school finance reform in other states.

⁵The exception is the small number of basic aid districts whose property tax revenues exceed their revenue limits. They receive the state’s basic aid of $120 per pupil.

⁶California Revenue and Taxation Code, Section 98.6.
The state continued to equalize revenue limits and thus to equalize revenue per pupil across California’s school districts. In 1983, the Serrano plaintiffs brought the state back to court to test whether the state was in compliance with the original ruling. The plaintiffs argued for a literal interpretation of Judge Jefferson’s $100 revenue band. The defendants argued that the band was only one way to measure equality and that it should be adjusted for inflation if used at all. In his ruling, Judge Olson sided with the defendants. He concluded that “insignificant differences” was the main principle and that “the Legislature has done all that is reasonably feasible to reduce disparities in per pupil expenditures to insignificant differences.”

This brief account of the transformation of California’s school finance system is interpretative, not comprehensive. It has omitted many important details—such as basic aid districts, the parcel tax, voluntary contributions, and categorical aid—to focus on the central issue, the transformation in the authority over school district revenue. In 1970, the state government allocated aid to school districts according to a simple formula, and school districts supplemented this revenue by levying their own property taxes. In this sense, revenue authority rested with the school districts. Since 1978, property tax rates have been limited, and the state has determined how those revenues (along with state aid) are distributed. Thus, revenue authority now rests with the state.

Superficially, this transformation in authority was due to Proposition 13. More fundamentally, it was necessitated by revenue equalization. Once the state chose revenue equalization as its response to the Serrano decision, it had to assume control of school revenue. It could not maintain a system of local revenue authority and ensure revenue equalization at the same time. Even if Proposition 13 had not passed, the legislature would have found it necessary to enact a similar measure for school districts.

Revenue equalization is sometimes incorrectly seen as a dictate of the courts. However, the plaintiffs in the Serrano suit sought fiscal

\footnote{Serrano v. Priest, 200 Cal. App. 3d 897; 1986 Cal. App. LEXIS 1586; 226 Cal. Rptr. 584.}
neutrality, not revenue equalization. In its 1971 ruling, the California Supreme Court focused on differences in revenue resulting from differences in taxable wealth. That ruling does not require that the revenue be equal; it requires only that differences in taxable wealth be neutralized. The legislature, not the courts, introduced revenue limits and started California down the path of revenue equalization. Although Judge Jefferson led the state further down this path by articulating the concept of revenue bands, a careful reading of his decision suggests another interpretation. “Wealth-related disparities” in revenue are the focus of his attention. If two districts had the same assessed value per pupil but one chose a higher tax rate, the resulting revenue disparities would not be wealth-related, and fiscal neutrality would not be violated.

This is not to suggest that revenue equalization was the wrong choice. The point is simply that it was a choice, not a dictate, and one that the legislature is free to reconsider. The most obvious alternative to revenue equalization is district power equalization, which is based on the underlying concept of equality of opportunity. In contrast, revenue equalization is based on the concept of equality of outcome, of ensuring that every game is competitive. Although equality of outcome is generally considered the stronger concept of equity, it undermines local incentives insofar as it transfers discretion, power, and authority from school districts to the state. This transfer may make districts less flexible in responding to the needs of their constituents, less accountable to their local taxpayers, and less efficient and effective in delivering their services. The next section considers these issues in detail.

Assessing the Current System

Although California’s school finance system could be evaluated against many criteria, three are particularly relevant. The first is equity, the driving force in the transformation of the system. The second is local revenue flexibility, the major concern of the state in defending itself against the Serrano plaintiffs. The third is revenue adequacy, the key concept in school finance reforms of other states.
Equity

After Judge Olson’s 1983 decision, the state legislature no longer sought the convergence of district revenue limits. Indeed, it occasionally widened revenue limits as it introduced new programs. For example, SB 813, enacted in 1983, increased the revenue limits of districts that lengthened their school years or raised the minimum salary for teachers. Yet the legislature also has taken steps to narrow the remaining difference in revenue limits. Periodically, it has allocated large amounts of revenue in equalization aid, which increases the revenue limits of districts that are below the average limit.

Sonstelie, Brunner, and Ardon (2000) capture the net effect of these changes with a percentile band for revenue limits. For unified districts, the 90 percent band is a range of revenue limits that includes 90 percent of all students in those districts. The band is constructed so that 5 percent of students are in district with limits above the band and 5 percent are in districts with limits below the band. The width of this band has shrunk dramatically since 1974–1975. By 1994–1995, the bottom of this band was 99 percent of the median revenue limit. The top of the band was only 7 percent above this median. The bands for elementary and high school districts are also quite narrow. The same study computes 90 percent bands for all revenue, including local, state noncategorical, state categorical, and federal funds. These bands are considerably wider than those for revenue limits, but they also have converged since the early 1970s. Regardless of how it is measured, revenue is quite equally distributed across school districts in California, particularly compared to other states. Evans, Murray, and Schwab (1997) found that in 1972, California ranked 45th among states in equality of spending per pupil across districts. By 1987, it ranked fifth. This is a remarkable achievement for a large state with almost 1,000 school districts.

These gains in revenue equity, however, have come at the expense of fiscal neutrality, which holds that districts with the same tax rate should receive the same revenue. Although California school districts no longer have an explicit property tax rate, they do have an effective property tax rate, which is the property tax revenue received by the school district divided by the assessed value of property in the district. Figure 8.2
Figure 8.2—Tax Rates and Revenue in 1995
displays the relationship between this effective property tax rate and
revenue per pupil. As the figure indicates, these tax rates range from 0.1
percent to 0.6 percent, yet districts receive essentially the same revenue
per pupil.

These inequities cannot be observed in school budgets or on
property tax bills. Instead, they show up in the property tax allocations
to other local jurisdictions. Figure 8.3 shows the relationship between
the average education property tax rate in a county and the property tax
revenue per capita allocated for government services other than
education. As the figure shows, if school districts in a particular county
have higher property tax rates on average, other local jurisdictions have
less property tax revenue at their disposal.

These inequities are a natural consequence of the state’s focus on
revenue equalization. In essence, the state has offset revenue differences
without addressing the underlying fiscal inequities that led to them. As noted by the Legislative Analyst’s Office (1996), property tax revenues in California today are still allocated according to property tax rates in the early 1970s. Taxpayers are generally unaware of these inequities because the current system obscures the link between the tax a property owner pays and the government services it finances. Property tax bills do not specify how a taxpayer’s payment is allocated among city, county, special district, and school district, making it difficult for taxpayers in different jurisdictions to compare these allocations and to understand the inequities.

In short, California’s transformation in school finance has led to a much more equitable distribution of revenue across school districts, but it has not led to a similar improvement in taxpayer equity. School
districts receive very similar revenue per pupil but have very different effective tax rates.

**Flexibility**

To achieve revenue equity across school districts, California has also sacrificed local revenue flexibility. California school districts have few options for supplementing the revenue they receive from the state. The main option is the parcel tax, which is not viable for many districts and has been used sparingly (Chapter 9). Another option is voluntary contributions, but this funding source is also quite limited (Sonstelie, Brunner, and Ardon, 2000).

This lack of local revenue flexibility contrasts sharply with the privileged status of local control in the laws governing California schools. The section of the California Education Code dealing with school finance begins with the declaration that “The system of public school support should be designed to strengthen and encourage local responsibility for control of public education.” This contrast raises two related questions. Given the realities of modern public education, is the principle of local fiscal control anything more than a cherished platitude? If not, have we lost anything valuable along with that principle?

To address these questions, consider a hypothetical situation in which all California school districts have exactly the same revenue per pupil. What are the arguments for allowing school districts the flexibility to supplement state funds and thus to deviate from revenue equality? One reason to relax the standard of revenue equality is that different school districts have different needs because of their unique circumstances. This is not necessarily an argument for local revenue flexibility, however, as the state government could also provide for those differing needs by adjusting its revenue formula appropriately or by creating supplemental categorical aid programs. The argument for local revenue flexibility should be based on legitimate needs of local school districts that deviate from the average needs of school districts and that either cannot or should not be addressed by adjustments to the state aid program or by state categorical programs.
This standard requires some distinction between what is a legitimate state interest and what is purely a local interest. Which special needs should be met by funds raised from taxpayers throughout the state, and which needs should be met by local tax revenue? Because the California Constitution provides no direct guidance on this question, this essay proceeds with the working assumption that the state’s interest is to ensure that every child has access to reasonable educational opportunities, that there is consensus on what constitutes such opportunities, and that the state should provide revenue to each district sufficient to provide those opportunities under average conditions. It then considers four hypothetical examples in which conditions are not average.

First, consider regional differences in teacher salaries. As Rueben and Herr show in Chapter 5, salaries differ significantly across regions in California. In Orange County, the salary for an experienced teacher can be more than 20 percent higher than the salary of an equivalent teacher in Northern California. Furthermore, these salary differences reflect conditions external to the district, such as the cost of living and salaries in alternative occupations. Under the working assumption that state revenue is adequate to provide reasonable opportunities under average conditions, salary differences imply that revenue would be inadequate for high-salary regions. Districts in those areas have a legitimate need for additional revenue to maintain the state’s interest in ensuring reasonable opportunities. Furthermore, the state could easily adjust its revenue formula to account for those needs. As a consequence, regional differences in teachers’ salaries do not constitute a good reason for local revenue flexibility.

As a second case, consider extracurricular activities such as varsity athletics, debate teams, and dramatic productions. Suppose the parents in a particular district put unusually high value on these activities. Most would agree that extracurricular activities have a legitimate place in public schools, but few would maintain that these activities are vital to providing reasonable educational opportunities or that the state has a responsibility to ensure that these activities are widely available and well funded. Extracurricular activities are a local interest, not a state interest. Accordingly, these activities should be financed by local funds. Given the 1984 ruling of the California Supreme Court in Hartzell v. Connell,
the local funds must be taxes, not user fees. Extracurricular activities are therefore one justification for local revenue flexibility.

The third case is campus security. A safe and secure campus is essential to providing reasonable educational opportunities and is thus a legitimate state interest. Moreover, security needs surely differ across campuses of the state. It is less clear that the state could design an effective aid program for addressing these differing needs. The crime rate in a school’s neighborhood may be one relatively objective measure of need, but such a measure is cold comfort for parents in crime-free neighborhoods who may nonetheless fear for the safety of their children in school. Even if those fears are unreasonable by objective standards, should we deny the legitimacy of parental concerns? Here the question is whether the value of an additional campus security person exceeds the cost of that person. Parents may well be in the best position to make that judgment, particularly when it comes to the safety of their own children. If campus security were left to local districts, and if those districts had a flexible revenue option, parents would essentially be in that position. They would gauge the value of additional security against the costs they would incur from providing that security. In this case, local revenue flexibility may be a good way to resolve a difficult value judgment. This hypothetical example shows that some state interests are perhaps best financed with local taxes. These cases are another justification for local flexibility.

The final example concerns academic enrichment. Consider a community of well-educated parents with bright and academically motivated children. Graduates of the community’s high school proceed to good universities and to successful careers after college. However, with a little more money, the school could expand its offerings and challenge its students even more. The students would then go on to even better universities and prosper even more after college. Suppose also that the extra investment would pass even the most conservative cost-benefit test. The increase in the material well being of the school’s graduates would more than make up for the additional investment in the school. That condition notwithstanding, the enrichment of the school’s academic program is not a state interest and should not be funded by taxpayers in other districts. The primary beneficiaries of the investment
are the graduates of the school and their families. As a consequence, they should fund the investment from their own taxes. Furthermore, by making academic enrichment a local interest, parents are obligated to make the appropriate cost-benefit comparison—a process that promotes efficient use of public funds and tempers unwarranted requests for such funds. Thus, this example is another justification for local revenue flexibility and also demonstrates the inevitable tension between local flexibility and statewide equity.

These examples also suggest a pragmatic reason for a viable local revenue option in California’s system of school finance. Every district has its own special needs. If all funds are controlled by the state, districts must look to the state to meet these needs. This puts the legislature in the difficult position of receiving district pleas for special treatment, of deciding which needs are most legitimate, and of designing state programs that target only those needs. Many decry the rapid growth in categorical programs, but that growth is a natural part of a system entirely funded by the state.

In her 1999 report on a K–12 Master Plan, the Legislative Analyst argued that a viable local revenue option would reduce the pressure on the legislature and give districts other ways to address their special needs. Also, in many cases, local taxpayers have more knowledge about their districts’ needs than does the legislature. As a consequence, they and their local representatives may be better than the state legislature at making cost-benefit decisions on special requests. These local taxpayers and representatives may also be better at holding school districts accountable for the efficient use of funds granted in response to those requests.

Many claim that a viable local revenue option is important for another reason. In the words of the California Constitutional Revision Commission (1996, p. 49), the lack of such an option has “fostered a disconnect between citizens and their local education system.” Again, this disjunction is in many ways a predictable consequence of a state finance system.

In summary, there are valid arguments for a viable local revenue option for schools. Some educational needs are local interests and should be funded by local taxes. Others are more closely related to state interests
but might be best addressed through local funding. A local revenue option would also foster a better connection between public schools and the communities they serve and reduce the pressure on the legislature to respond to the special needs of school districts. On the other hand, a local revenue option inevitably raises equity concerns.

**Adequacy**

School finance reform in California has focused largely on equity, but reforms in other states have been more concerned with adequacy (see Chapter 3). In general, revenue is adequate if schools have sufficient resources to educate students to state standards. California is implementing an accountability system that may ultimately reveal whether students are meeting those standards. Until that system is fully implemented and systematically geared to state standards, it seems best to rely on nationwide tests in which California students can be compared to those in other states. California students do not fare well in those comparisons. Sonstelie, Brunner, and Ardon (2000) examine a number of such tests, including the National Assessment of Education Progress, the National Education Longitudinal Study, and the SAT. For tests administered during the 1990s, they find that California students do not perform as well as students in other states, even after the scores are adjusted for the socioeconomic status of the test-takers.

Although the link between school resources and academic achievement is a controversial one, most would agree that California’s schools lack the same level of resources as schools in other states. Much attention has been focused on the difference in spending per pupil between California and other states. However, because costs differ across states, spending per pupil is not a good measure of resource differences. A better measure is the pupil-teacher ratio, which provides a direct measure of the most important resource in education.

Figure 8.4 shows the pupil-teacher ratio in California and in all other states from 1969–1970 through 1998–1999. In 1998–1999, the pupil-teacher ratio in California was 21.5 as opposed to 16.1 in all other states, a difference of 34 percent. This difference exists despite the Class Size Reduction Act, which was first implemented in the 1996-97 academic year. Although this act caused a noticeable decline in California’s pupil-
## Figure 8.4—Pupils per Teacher in California and the Rest of the United States


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<th>Year</th>
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<th>Rest of the United States</th>
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<td>22.0</td>
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<td>19.8</td>
</tr>
<tr>
<td>1995–96</td>
<td>19.8</td>
<td>19.6</td>
</tr>
<tr>
<td>1997–98</td>
<td>19.6</td>
<td>19.4</td>
</tr>
<tr>
<td>1999–00</td>
<td>19.4</td>
<td>19.2</td>
</tr>
</tbody>
</table>

**SOURCES:** Counts of pupils and teachers are from NCES (August 1992) and Digest of Education Statistics (March 2000).

The pupil-teacher ratio, the gap between California and other states is still quite large. Furthermore, the figure shows that the divergence between California’s ratio and that of other states coincides with California’s transformation in school finance in the late 1970s.

This figure also illustrates another important point. If other states are an appropriate reference for the adequacy of California’s school resources, the standard of adequacy has changed dramatically over the last 30 years. California’s current pupil-teacher ratio is woefully inadequate by today’s standard yet is more than adequate by the standard of 1970. In 1969–1970, the pupil-teacher ratio in other states was 22.4, which is higher than California’s current ratio of 21.5.

Proponents of the adequacy principle sometimes portray it as an absolute standard. The state sets standards for its schools, experts determine the resources necessary to achieve those standards, and the state guarantees that schools have the funds to secure those resources. As Rose notes in Chapter 3, however, this portrayal has two problems. First, we set standards in any arena with an eye toward the costs of
achieving them. When costs change, standards change. Second, in the area of education, we do not see a clear and widely accepted link between resources and outcomes. For both of these reasons, what we judge to be adequate resources for our schools is likely to depend on a number of factors, including costs, values, and individual conceptions about what constitutes a good education.

Some of these factors help explain the fall in the pupil-teacher ratio across the country over the last 30 years. As Sonstelie, Brunner, and Ardon (2000) show, one factor was the fall in the ratio of school children to taxpayers—a decline that reduced the cost to taxpayers of lowering the pupil-teacher ratio. Another factor was the growth in real income, which increased the value taxpayers placed on education. The standard for the pupil-teacher ratio is now lower than it was because the cost of reducing that ratio has declined and because taxpayers are richer and therefore expect more from their schools.

How then do we explain California’s apparent choice of a higher pupil-teacher ratio? That choice cannot be explained by differences between California and other states in either real income per capita or the number of school children per capita. Both ratios have followed a similar path in California as in the rest of the nation. What is clearly different between California and other states is how education is financed. In California, the parcel tax is the most prevalent local revenue option; in most other states, additional school funds can be financed through a property tax. As Brunner shows in Chapter 9, the cost to local homeowners of additional school spending financed by the parcel tax is considerably higher than spending financed by a property tax. The reason for this difference is straightforward. Compared to the parcel tax, the property tax collects more revenue from commercial and industrial property. This additional revenue subsidizes homeowners in that school district and lowers the price to them of increased school spending.

This observation leads to a central conclusion concerning the adequacy of school resources in California. Judged by the most important resource for schools—the number of teachers—California schools do not measure up to the standards of other states. However, those resources may well be adequate in light of the higher price to California taxpayers of public school spending. Californians may have a
less demanding standard for school resources because the price of increasing those resources is relatively high.

**Reforming the System**

There are two basic approaches to reforming our current school finance system. One is to focus on modifying that system. The other is to articulate a vision of a better system and then to develop pathways from the current system to this model system. This essay takes the second approach, making sure to accommodate *Serrano v. Priest* and Proposition 13.

**A Model System**

The system has two levels of revenue: primary and secondary. Primary revenue is determined by a base level of funding per pupil sufficient to provide adequate resources to schools under average conditions. This base revenue per pupil is a parameter established by the legislature.

Districts receive their base revenue from a countywide primary fund, which has two sources of revenue. The first source is a primary tax rate levied on all properties in the county. This primary rate is the same for all counties. The second source is state primary aid, which is the difference between the base revenue for all districts in the county and the property tax revenue raised from the county’s primary tax rate.

In addition to its primary tax rate, each district may levy a secondary tax rate to supplement its primary revenue. The secondary tax rate is subject to a tax rate limit. Districts may choose any secondary rate between zero and the secondary tax rate limit. The state could require districts to obtain voter approval for these secondary rates through periodic tax rate referenda.

Property tax revenue from this secondary tax rate is subject to district power equalization. This equalization is accomplished through a secondary state aid program. The state establishes a standardized assessed

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8 Although the following model ignores elementary districts, high school districts, and districts that are smaller than the most efficient size, it can be easily adapted to incorporate those districts.
value per pupil, and secondary aid is the difference between the revenue the district would receive if its secondary tax rate were applied to the standardized tax base and the revenue it actually receives from its secondary tax rate. For districts with assessed value per pupil greater than the standardized value, secondary aid is negative and reduces the district’s base revenue.

The finance system is best captured by three equations. First, some definitions:

- BR is a district’s base revenue per pupil established by the state.
- PT is the primary property tax rate established by the state.
- DAVP is a district’s assessed value per pupil.
- SAVP is the standardized assessed value per pupil established by the state.
- ST is the secondary property tax rate chosen by the district.
- L is the limit on the secondary tax rate established by the state.

Using these definitions, we have the following formulas for sources of district revenue:

Primary aid = BR
Secondary aid = ST * (SAVP – DAVP)
Secondary property tax revenue = ST * DAVP

Adding these three sources, total district revenue per pupil is given by the following formula:

Total district revenue = BR + ST * SAVP

This total revenue formula captures the essence of the model system. First, the system is fiscally neutral. Districts choosing the same tax rate have the same revenue per pupil. That revenue is the base revenue, which is the same for all districts, plus the secondary revenue, which is the district’s secondary tax rate multiplied by the standardized assessed value per pupil established by the state. The secondary aid formula neutralizes differences in assessed value per pupil across districts.

Because districts can choose different secondary rates, revenue per pupil may differ across districts. However, those differences are
constrained by the limit on the secondary tax rate. The choice of that limit strikes a balance between the competing goals of revenue equity and local revenue flexibility. If the limit is low, revenue per pupil will be quite equal across districts, but they will have little revenue flexibility. If it is high, they will have flexibility, but the revenue may be quite unequal across districts.

The state could also adjust base revenue to account for cost differences across districts. One obvious adjustment is for differences in resource costs, particularly salaries. Another obvious adjustment is for differences in the socioeconomic status of students in a district. These differences could also be addressed through categorical programs.

The model system provides the state with valuable feedback on whether local taxpayers find the base funding for their schools to be adequate. If most districts increase their secondary rate to the limit, base funding is probably inadequate. Local taxpayers have signaled their willingness to spend more on their schools. On the other hand, if most districts choose not to levy a secondary rate, the legislature should consider a decrease in base funding. In that case, local taxpayers are signaling that they prefer property tax relief to more school spending. Through these signals, the model system tends to move school spending decisions back toward local taxpayers—a system that has proven to be quite reliable in other states.

Finally, the model system is consistent with both Serrano and Proposition 13. Because the state aid formula neutralizes differences in property values across districts, the system does not permit wealth-related differences in revenue across districts, as required by the Serrano ruling. Furthermore, because the system limits the property tax rate for schools to the sum of the primary rate and the secondary rate limit, it can be made consistent with Proposition 13. Consistency requires that sum to be less than the Proposition 13 limit of 1 percent. The sum must also leave room below the 1 percent limit for property tax revenue to other local governments.
An Example of the System

To demonstrate how this system would work in practice, it is applied to the six school districts in Los Angeles County listed in Table 8.1. The table illustrates the factors that affect assessed value per pupil in a district. One factor is the average assessed value of residential units. In Inglewood, residential units have an average assessed value of about $75,000. In Beverly Hills, the average is nearly $400,000.

A second factor is the number of school children. The second column lists students per housing unit. Although residential units have a higher assessed value in Baldwin Park than in Inglewood, Baldwin Park also has more school children per unit. As a consequence, residential assessed value per student is lower in Baldwin Park than in Inglewood.

The fourth column illustrates another important factor in determining assessed value per pupil: commercial and industrial property. Residential value per pupil is about the same in Palos Verdes Peninsula and Beverly Hills, but the latter has more commercial property and therefore a greater assessed value per pupil.

Table 8.1

Assessed Values of Selected Los Angeles County School Districts, 2000

<table>
<thead>
<tr>
<th>District</th>
<th>Residential Value per Housing Unit, $</th>
<th>Students per Housing Unit</th>
<th>Residential Value per Student, $</th>
<th>Residential Value as a % of Total Value</th>
<th>Total Value Per Student</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inglewood</td>
<td>75,601</td>
<td>0.42</td>
<td>181,468</td>
<td>0.72</td>
<td>250,321</td>
</tr>
<tr>
<td>Baldwin Park</td>
<td>80,885</td>
<td>0.94</td>
<td>86,104</td>
<td>0.65</td>
<td>132,145</td>
</tr>
<tr>
<td>Culver City</td>
<td>107,696</td>
<td>0.33</td>
<td>331,159</td>
<td>0.55</td>
<td>597,090</td>
</tr>
<tr>
<td>South Pasadena</td>
<td>136,885</td>
<td>0.35</td>
<td>388,962</td>
<td>0.88</td>
<td>441,524</td>
</tr>
<tr>
<td>Palos Verdes</td>
<td>383,084</td>
<td>0.40</td>
<td>963,920</td>
<td>0.94</td>
<td>1,026,387</td>
</tr>
<tr>
<td>Beverly Hills</td>
<td>397,619</td>
<td>0.32</td>
<td>1,255,639</td>
<td>0.68</td>
<td>1,834,586</td>
</tr>
</tbody>
</table>

SOURCE: Assessed values are from the Dataquick Property Data CD-ROM for Los Angeles County.

9The example results from the excellent research of Lynn Scholl of PPIC.
To see how the model system would work when applied to these six districts, let us assume the following parameters:

- BR (base revenue per pupil) = $5,000.
- PT (primary property tax rate) = 0.2 percent.
- SAVP (standardized assessed value per pupil) = $500,000.
- L (limit on the secondary tax rate) = 0.2 percent.

Table 8.2 lists the resulting values for primary and secondary aid, and property tax revenue. Property tax revenue is the sum of the revenue from the primary and secondary tax rates.

The table gives revenue values for two different scenarios. In the first, none of the districts levies a secondary tax. In the second, all districts levy the maximum rate of 0.2 percent. In Inglewood, Baldwin Park, and South Pasadena, aid in the second scenario is higher than in the first because assessed value per pupil in these districts is lower than

<table>
<thead>
<tr>
<th>Secondary tax rate = 0.0%</th>
<th>Revenue per Pupil</th>
<th>Property Tax</th>
<th>Primary and Secondary Aid</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inglewood</td>
<td>501</td>
<td>4,499</td>
<td>5,000</td>
<td></td>
</tr>
<tr>
<td>Baldwin Park</td>
<td>264</td>
<td>4,736</td>
<td>5,000</td>
<td></td>
</tr>
<tr>
<td>Culver City</td>
<td>1,194</td>
<td>3,806</td>
<td>5,000</td>
<td></td>
</tr>
<tr>
<td>South Pasadena</td>
<td>883</td>
<td>4,117</td>
<td>5,000</td>
<td></td>
</tr>
<tr>
<td>Palos Verdes Peninsula</td>
<td>2,053</td>
<td>2,947</td>
<td>5,000</td>
<td></td>
</tr>
<tr>
<td>Beverly Hills</td>
<td>3,669</td>
<td>1,331</td>
<td>5,000</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Secondary tax rate = 0.2%</th>
<th>Revenue per Pupil</th>
<th>Property Tax</th>
<th>Primary and Secondary Aid</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inglewood</td>
<td>1,001</td>
<td>4,999</td>
<td>6,000</td>
<td></td>
</tr>
<tr>
<td>Baldwin Park</td>
<td>529</td>
<td>5,471</td>
<td>6,000</td>
<td></td>
</tr>
<tr>
<td>Culver City</td>
<td>2,388</td>
<td>3,612</td>
<td>6,000</td>
<td></td>
</tr>
<tr>
<td>South Pasadena</td>
<td>1,766</td>
<td>4,234</td>
<td>6,000</td>
<td></td>
</tr>
<tr>
<td>Palos Verdes Peninsula</td>
<td>4,106</td>
<td>1,894</td>
<td>6,000</td>
<td></td>
</tr>
<tr>
<td>Beverly Hills</td>
<td>7,338</td>
<td>-1,338</td>
<td>6,000</td>
<td></td>
</tr>
</tbody>
</table>

SOURCE: Assessed values are from the Dataquick Property Data CD-ROM for Los Angeles County.

NOTE: Values are for the year 2000.
the standardized value. In Culver City, Palos Verdes Peninsula, and Beverly Hills, the opposite occurs. Aid decreases when these districts increase their secondary tax rate because their assessed values exceed the standardized value. The most extreme case is Beverly Hills, which actually has a negative value for aid when it levies the maximum tax rate. In this case, some of the secondary property tax revenue raised by Beverly Hills would go to the countywide primary fund, offsetting state payments to that fund. Although some property tax revenue leaves Beverly Hills when the district increases its secondary rate, the total revenue of the district increases when its property tax rate increases. Like every other district, it has a mechanism to meet special needs.

Figure 8.5 illustrates the relationship between district property tax rates and revenue under the model system. Districts have some local revenue flexibility, but the system is also fiscally neutral. Like the 1970 system portrayed in Figure 8.1, districts with higher property tax rates have more revenue per pupil. However, differences in assessed value per pupil do not lead to differences in revenue per pupil. Like the current system portrayed in Figure 8.2, differences in revenue per pupil are

Figure 8.5—Tax Rates and Revenue in the Model System
relatively small. In the model system, however, districts with the same revenue per pupil have the same property tax rate.

Fiscal neutrality is an instance of horizontal equity, the similar treatment of similar individuals. Another concept of equity is vertical equity, which compares the treatment of dissimilar individuals. The model system involves an important element of vertical equity. Wealthier households pay higher prices for increasing the revenue per pupil in their schools. Table 8.3 illustrates this feature of the model system. The first column gives the increase in the property tax payments for an average housing unit in each district when the secondary tax rate is increased from 0 percent to 0.2 percent. When combined with state aid, that increase in taxes yields a $1,000 increase in revenue per pupil, the second column. The increase in property taxes divided by the increase in revenue per pupil is listed in the third column. The ratio is the increase in taxes for the average residential unit resulting from a $1 increase in revenue per pupil. It is the tax price of revenue per pupil. The tax price is much lower in Inglewood and Baldwin Park than in Palos Verdes Peninsula and Beverly Hills. In that sense, the model system involves a strong element of vertical equity.

<table>
<thead>
<tr>
<th>District</th>
<th>Property Tax Payment per Housing Unit</th>
<th>Revenue per Pupil</th>
<th>Tax Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inglewood</td>
<td>151</td>
<td>1,000</td>
<td>0.15</td>
</tr>
<tr>
<td>Baldwin Park</td>
<td>162</td>
<td>1,000</td>
<td>0.16</td>
</tr>
<tr>
<td>Culver City</td>
<td>215</td>
<td>1,000</td>
<td>0.22</td>
</tr>
<tr>
<td>South Pasadena</td>
<td>274</td>
<td>1,000</td>
<td>0.27</td>
</tr>
<tr>
<td>Palos Verdes Peninsula</td>
<td>766</td>
<td>1,000</td>
<td>0.77</td>
</tr>
<tr>
<td>Beverly Hills</td>
<td>795</td>
<td>1,000</td>
<td>0.80</td>
</tr>
</tbody>
</table>

Pathways from the Current System to the Model System

The model system improves the current system in several ways. It is fairer to taxpayers, it provides some local revenue flexibility, and it provides the state feedback on whether local taxpayers find base funding
for schools to be adequate. How we could move to this model system is another question.

The most obvious obstacle is the current system for financing other local governments. We cannot reform the financing of public schools without also reforming the financing of other local government services. The two are linked because the two share a common source of tax revenue—the property tax. This common link also implies that the case for reforming the financing of other local governments is similar to the case for reforming school finance. In fact, many of the reform options are compatible. The best discussion of reform options for other local governments is provided by the Legislative Analyst’s Office (2000). The LAO provides five reform options, two of which dovetail with the model system.

In Alternative I, the LAO proposes to establish uniform tax shares for all local governments. It would base those shares on studies of the typical costs of various municipal services. In an example, the LAO report gives K–14 schools 50 percent of property tax revenue, countywide services 25 percent of the share, fire and police services 10 percent, and parks, recreation, and other services 5 percent. The total tax share a local jurisdiction receives would depend upon the services it provides.

In Alternative III, the LAO offers a similar plan. Half of the tax revenue from a property would go to K–14 education and half would go to the city in which the property is located. The city would then be responsible for all municipal services, either by providing the services itself or by contracting with a special district. For unincorporated areas, the county would receive half of the property tax revenue and would be responsible for municipal services.

Under either plan, school districts could be assigned a constant share of the property tax revenue raised within their boundaries. This share would establish the uniform property tax rate required by the model system of school finance. The LAO report also discusses the process of moving from the current property tax allocations to these new allocations. In school districts with a higher property tax rate than the target rate, the school district tax rate would be reduced and the revenue shortfall made up by increasing noncategorical state aid. In districts with
tax rates below the target rate, the district tax rate would be increased and the tax shares of other local jurisdictions would be decreased. In these cases, the state would reduce its noncategorical aid to the districts to offset the increase in property tax revenue.

Readjusting property tax burdens in this manner would help some local jurisdictions and harm others. It would not affect school districts themselves because state aid would be adjusted to offset adjustments in property tax revenue. At the same time that uniform property tax rates were established, the state could adjust state noncategorical aid to give every district the same revenue per pupil. Because of past revenue equalization efforts, California’s school districts are already close to this position.

Once base revenue and tax rates were equalized, the state could create local revenue flexibility by offering districts a choice between more revenue or property tax relief. As a specific illustration, suppose that all districts had base funding of $5,000 per pupil and a tax rate of 0.4 percent. From that point, the state could offer districts the choice of increasing revenue per pupil to $6,000, decreasing the tax rate to 0.2 percent, or other combinations of a revenue increase and tax rate decrease. The feasible combinations would be determined by the secondary aid formula. For example, using the formula of the previous section, a district could choose a tax rate of 0.1 percent and district revenue of $5,500 per pupil. This system could be established by a series of smaller revenue and tax rate changes over the period of several years.

There are many other factors to consider in implementing the model system. One is the treatment of secondary revenue under the government spending limits enacted in Proposition 4 of 1979, known as the Gann limits. Another is how that revenue would be accounted for under Proposition 98. The most important issue, perhaps, is the cost of the model system to the state government and other local jurisdictions. These costs depend on the parameters of the model system: base revenue per pupil, the primary property tax rate, the secondary tax rate limit, and the standardized assessed value per pupil. The clearest example is base revenue. California schools enroll about 6 million students, so an increase in base revenue of $100 per pupil would increase the cost of the model system by $600 million. The cost of different primary tax rates is
a more complicated matter. If the primary tax rate were equal to the average of current school district tax rates, the state would provide more aid to some districts and less to others, but the net cost to the state would be unaffected. From this reference point, the state could then create space for a secondary tax through a process of reducing the primary rate and replacing the lost property tax revenue with state aid. At current levels of assessed valuation, a statewide decrease in the property tax rate of 0.1 percentage points (from, say, 0.4 to 0.3 percent) would decrease property tax revenue by about $2 billion. In budget terms, this decrease would be a cost to the state, but not a cost to the state’s taxpayers because it would provide property tax relief.

The choice of primary and secondary tax rate limits also affects the property tax revenue of other local governments. High primary and secondary rates imply low costs for the state government but substantial costs for other local jurisdictions. In that case, the state government may be forced to offset costs to local jurisdictions through additional state aid to them. It could also create more room for local jurisdictions under the 1 percent limit by removing community colleges from the property tax rolls. Currently, community colleges receive about $1.5 billion annually in property tax revenue—an amount equivalent to 0.075 percentage points in the property tax rate.

If the model system has conceptual appeal, its fiscal effects could be simulated under a number of different model parameters. The simulations would examine costs to the state, fiscal effects on other local jurisdictions, and tax relief for property owners. The scenarios could involve different base revenue and tax rate parameters for schools and also different property tax allocations for other jurisdictions, including community colleges.

Conclusion

Serrano and Proposition 13 limited, but did not eliminate, the capacity of California school districts to raise their own revenue. As this essay has demonstrated, it is still possible to design a system in which school districts have some control over their own property tax rates and revenue. Furthermore, this system is superior in a number of ways to our current system. It is fairer to taxpayers, provides more revenue flexibility
to schools, and gives the state legislature a clear signal about the willingness of taxpayers to support their schools.

Although this model system is built around the property tax, its basic principles could also be applied to other local revenue sources, such as the parcel tax and the local income tax. The key is to design a state aid program that neutralizes differences in tax bases across districts. For equity reasons, it may also be desirable to limit supplemental local revenue.

Of the three local revenue options discussed in this series of essays—the property tax, the parcel tax, and the income tax—which one is the best? Traditionally, the property tax has been the staple of local governments, and for good reason. As countless studies have shown, the benefits of local public services, such as education, are capitalized into property values. All other factors being equal, homes are more valuable in communities with good schools, low crime, and excellent public facilities. Because property owners benefit from these amenities, it is appropriate that they pay for them.

The parcel tax shares many of the positive aspects of the property tax. If it is a tax on the square footage, it resembles a tax on land value, which is superior in many respects to a tax on the value of land and improvements. In fact, its major liability stems from the fact that it is not actually a tax on value. A tax on square footage is inequitable for large parcels of land with little value.

With its graduated rates, the income tax has important elements of vertical equity. However, as a local tax, it suffers from a major flaw. Local funds raised from the income tax primarily benefit property owners in a community. To the extent that these funds enhance the quality of a community’s public schools, they increase the value of residential property in the community. This effect does not raise concerns in the case of homeowners, because they are local residents and would pay local income taxes. The primary concern is with the owners of rental property.

This brief account illustrates only some of the issues that should be considered in designing a local revenue option for California schools. A fuller account would take us far beyond the scope of this essay, which has a more limited objective: to outline a response to Serrano and Proposition 13 that improves on our current system of school finance.