



Taking stock of California's weighted student funding overhaul: What have districts done with their spending flexibility?

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This is the first paper in a three-part series analyzing early impacts of California's 2013 adoption of the watershed Local Control Funding Formula. The state's move effectively shifted control over spending decisions from the state legislature to local school districts and eliminated a slew of state-imposed spending rules that many local districts saw as impediments to doing the most with their dollars. At the heart of California's initiative is a weighted student funding (WSF) model, designed to allocate funds on the basis of students and student needs and to let districts and schools drive decisions on how to use their funds. California has undertaken one of the nation's largest WSF overhauls to date. As such, its experience is of national interest as more states move toward—or consider moving toward—weighted student funding.

THIS PAPER ASKS: “What did districts spend their new money on under a more flexible spending system?”

PAPER TWO ASKS: “How did districts distribute their state allocations across schools?”

PAPER THREE ASKS: “To what extent is California's initiative associated with an improved relationship between spending and student outcomes?”

Fears and predictions around stripping state restrictions and granting local spending autonomy

In 2013, California replaced its more prescriptive education finance formula with a weighted student funding formula (WSF) – one that deployed substantial new funds to districts, sought to drive more resources to students with higher needs, and stripped long-standing spending constraints on districts, effectively shifting control to the local level. The California law specifically boosted allocations for foster youth, students with limited English and those living in poverty, as well as grade-specific weights.

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The Local Control Funding Formula (LCFF) moved spending decisions from the state’s legislative dictates to the school districts and eliminated dozens of categorical funding programs¹ used in the prior model. The old model LCFF replaced sometimes led to uneven distribution of funds; for example, districts of equal population size could receive the same dollars, despite having different student populations.² With an inequitable funding system, some argued that it was both impractical and unfair to hold districts accountable to a common statewide set of expectations.

Supporters of the finance formula change wanted to end a “command and control” and “one size fits all” approach. They hoped that by empowering local communities, the new model would ultimately promote a more productive use of public funds.³ Those concerned about the new model worried that in eliminating spending restrictions, districts would wind up slighting their most vulnerable populations’ needs, caving to big demands from organized labor⁴ or pressures from well-organized and/or more-affluent parents (as has been documented historically), or otherwise making ill-conceived spending choices⁵ in the absence of being told what to do by the state.⁶

California illustrates the broad tension between centralizing control or decentralizing decisions about schooling to local levels—tensions playing out in statehouse debates around education finance across the country.⁷ At the state level, the overarching policy need is to find a school financing formula that both promotes productive use of resources and ensures some measure of equity. While not without its critics, student based allocation (or weighted student funding) has surfaced as a potential solution, enabling states to both direct funds based on student need (advancing equity) while leaving the dollars flexible enough for districts and schools to decide how best to leverage them to maximize outcomes for their students (advancing productive use of resources.)

As California’s WSF law enters Year 5 of implementation, and a growing number of other states consider following suit, a fundamental question remains: What happens to districts’ resource use when school systems are funded on the basis of student needs and then freed from state-imposed finance constraints that hamper local decision making on how to best use dollars?

1. Full list available at <http://www.cde.ca.gov/fg/aa/lc/lcfffaq.asp#CAT>
2. Miller, Roza, Simburg (2014). *Funding for Students’ Sake: How to Stop Financing Tomorrow’s Schools Based on Yesterday’s Priorities*. Available at: http://www.bscpcenter.org/resources/publications/HowtoStopFinancingTomorrows_SchoolsBasedonYesterdaysPriorities.pdf
3. Fensterwald, John (2015). “Jerry Brown, Arne Duncan had deep, long-standing disagreements,” Ed Source. <https://edsourc.org/2015/jerry-brown-arne-duncan-had-deep-long-standing-disagreements/88417>
4. E. Premack, “LCFF lemmings poised to leap?,” EdSource, accessed November 21, 2017, <https://edsourc.org/2013/lcff-lemmings-poised-to-leap/33627>.
5. “Adequate and Equitable Funding,” The Education Trust-West, accessed November 21, 2017, <https://west.edtrust.org/issue/adequate-and-equitable-funding>.
6. J. S. Lee and L. J. Miller, “Policy Barriers to School Improvement: What’s Real and What’s Imagined?,” Center on Reinventing Public Education, accessed November 21, 2017, https://www.crpe.org/sites/default/files/CRPE_Policy-barriers-school-improvement_Report.pdf.
7. The tension exists in large districts too, between school leaders who seek freedom from bureaucratic systems commonly in place in districts serving large numbers of schools.

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To understand California’s story and data, it’s important to note that the new funding law coincided with a state economic boom that let lawmakers funnel substantially more dollars to districts than originally forecast. (Even after factoring in districts’ substantial obligatory pension spending, district revenue statewide grew by 32% over LCFF’s first three years.)

This paper explores district financial data from nearly all of California’s more than 900 school systems to clarify how spending choices changed from FY2013 (when the old funding law was still in effect) through the first three fiscal years under the new WSF law (FY14, FY15 and FY16). We examine changes in what districts purchased, for what functions, and at what price to explore whether the increased flexibility resulted in meaningful changes in spending. And we investigate predictions by both supporters and skeptics of the LCFF law to see if the data bear them out.

Specifically, we examine:

- How did California districts spend money when given flexibility?
- Did districts make radical spending changes in the absence of state restrictions?
- Did districts “negotiate away” their new funding for disproportionate salary raises or other benefits?
- Did the 2013 finance formula legislation, intended to allocate more dollars for students with the highest needs, seem to result in spending that could plausibly benefit—or even target—those youth?

Key Finding: Data show many fears and predictions unfounded—no radical changes in how money is spent

The data thus far haven’t borne out the fears and predictions for radical change outlined in the section above. To tease out any significant trends, we examined spending in several ways, by:

- function (which includes broad categories like instruction and special education spending);
- object (which includes discrete items under these categories, like salaries, benefits and pension spending);
- and staffing types and counts.

Our analysis focuses primarily on broad statewide patterns. But we also look at shifts in district-level spending.

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That said, our analysis finds no seismic shifts in broad spending patterns pre-LCFF and post-LCFF. *Despite having fewer spending restrictions, districts on the whole have not made radically different decisions around spending.* We did, however, see some modest changes and evidence of districts customizing spending to better meet their local needs.

The lack of radical change is unsurprising. We wouldn't expect all districts to readjust to the new model overnight or at the same pace.

Our analysis of spending and staffing data reveals evidence that:

- Districts across the state made efforts to add teachers and improve pupil services availability.
- District spending on instruction grew in total dollars, but fell as a share of total budget (thanks to the large infusion of new dollars in the state formula that substantially grew that total budget).
- Districts did not bargain away all the new dollars they were awarded (as some initially feared and predicted) as average teacher salaries grew more slowly than revenues did.
- Districts did use their flexibility to customize: For example, some invested in staff development and health services while others reduced spending there.
- Districts' biggest percentage FTE growth was in staff services that tend to support disadvantaged students, such as counselors, psychologists and social workers. This suggests an increased effort to potentially help the highest-need students, as the law intended.⁸
- Districts disproportionately increased spending on land and building improvements, materials/supplies, and consulting contracts and directed more of their funds to reserves.

While not reflective of a district spending *choice*, another district spending point is worth noting here. Given the enormity of existing pension obligations in California, some have asserted that the increase in mandatory district pension payments would consume all the new money channeled through the state funding formula.⁹ Our analysis indicates, generally, that it did not.

Bottom line: It remains an open question as to whether (or to what degree) students over the long term ultimately will benefit from the new law's funding flexibility, particularly students with the greatest learning needs. Papers Two and Three take an initial look at this question over the short term.

8. This paper is limited to looking at purchases, not distributions to schools. That means this analysis didn't discern what student groups, if any, are targeted for these staff services. Paper Two sheds additional light on this.

9. See for example, T. Chen and C. Hahnel, "The Steep Road to Resource Equity in California Education," The Education Trust-West, accessed November 21, 2017, https://west.edtrust.org/wp-content/uploads/sites/3/2015/11/ETW_Steep-Road-to-Resource-Equity-in-CA_Final_Report_April_11_2017.pdf.

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Local context is key: California is under national spotlight, but beware sweeping generalizations

As the nation’s most populous state, California is often considered a bellwether. But it is still just one state data point. Any other state adopting WSF will have its own political and policy context, which makes it difficult to draw sweeping generalizations from California about how flexibility affects spending.

California funneled a vast amount of new money (roughly \$17 billion¹⁰) into its new funding formula over a three-year period. At the same time, statewide enrollment remained flat. This meant district leaders had the chance to allocate resources and make new investments like never before. (In fact, this study initially sought to compare spending patterns in districts that received new money under the LCFF formula with those that did not. In the end, virtually all districts wound up with substantial new money, making the comparison moot. That said, we did look at those who got a larger share of the new money than their peers; our analysis did not surface significant differences between the two groups and therefore are not reported separately in this paper.)

But a few factors may be influencing district spending—and nudging districts toward cautious choices. One: District leaders may well see the state financial windfall as temporary and behave accordingly. Investing in FTEs is typically a long-term investment. Our analysis surfaced disproportionate increased investments in contract relationships, facilities improvements, and materials and supplies—all of which typically have a more finite (and shorter) investment window. Districts also plowed money into their reserves. Two: Concerns about higher required pension payments in future years may also be a source of caution. Growing pension costs are a major statewide concern, casting a long shadow over the fiscal landscape. Mandatory pension obligations represented the highest percent change in per-pupil spending over the four years studied.

Moving forward: States can use data transparency as a district spending check

The charts that follow can serve as a means for states to keep an eye out for districts that might “go rogue” on spending. Rather than layering on state requirements around district spending as a safeguard against poor local spending choices, data transparency can be used as an effective check.

While this paper primarily reports on analysis of broad statewide trends, states can use the same thorough reports that follow as a useful spending accountability tool for individual districts, capturing spending patterns across key functions, objects and FTEs.

10. Includes LCFF revenue and other state revenue. During this same period federal revenue decreased by \$281M and local revenue grew by \$352M.

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Policy debates wage in legislatures: Should states give districts control over state education dollars?

School finance policy has not been immune to the pendulum shifts that have continually reshaped other areas of education. Since the early 1970s, traditional school finance patterns have changed dramatically. A 150-year-old system of local funding and control has been largely replaced over time by state finance systems that deliver at least half of the total schooling funds—frequently with significant strings attached. For the most part, states assumed a bigger role to be able to drive money more equitably across districts. And, as states picked up more of the tab, they placed restrictions on those resources (in the form of categorical funds, reimbursements, etc.) to try to make sure the money would be used in state-approved ways, such as on designated programs or specific students.

But today, these state finance systems are increasingly under fire from critics for being opaque, overly burdensome in compliance, innovation-stifling, and ultimately, largely ineffective at driving improved student outcomes. And some say that with new accountability systems in place to measure the effects of spending choices on student outcomes, states no longer need to be in the business of deciding how funds are used.¹¹

Given these critiques, states are then left to find a school financing formula that does double duty: Promoting productive use of resources as well as ensuring some measure of equity. Student based allocation has surfaced as a potential strategy, enabling states to direct funds based on student need (advancing equity) while leaving dollars flexible enough for districts and schools to decide how best to leverage them to maximize student outcomes (promoting productive use of resources).

While not without its own critics, whose fears include the slighting of the most vulnerable students and overall poor spending decisions disconnected from best practices, weighted student funding is gaining momentum in states. California's 2013 passage of the Local Control Funding Formula (LCFF) represents one of the largest state WSF overhauls to date. States like Idaho, Pennsylvania and Georgia are considering California-style overhauls and nearly every state in the nation doles out at least some portion of dollars via weighted formula. While every state is unique, this analysis of California's WSF implementation can provide insight for policymakers beyond California's borders as they grapple with how to deploy state funds to districts in a way that targets the highest-need students and enables teaching and learning to close the achievement gap.

11. See for example, Huffington Post, accessed November 21, 2017, https://www.huffingtonpost.com/bill-gates/bill-gates-school-performance_b_829771.html. Or T. Timar, "How California Funds K-12 Education," Stanford University, accessed November 21, 2017, <http://cepa.stanford.edu/sites/default/files/2-Timar%283-07%29.pdf>. or L. Jacobson, "States Eye Looser Rein on Districts," Education Week, accessed November 21, 2017, <https://www.edweek.org/ew/articles/2008/03/05/26flex.h27.html>.

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The numbers behind the math

Our analysis examines district financial, demographic, and staffing data that California's more than 900 school systems reported to the state education department over four years: the last year of the old funding model (FY13, or Year Zero) and three years (FY14, FY15 and FY16) following implementation of the new weighted student funding model (LCFF).

We derived financial data from the California's SACS (standardized accounting code structure) General Fund expenditure files¹² for each year studied. General Fund expenditures include state LCFF funds, as well as other federal, state, and local funds spent for General Fund purposes (including most annual district and schooling expenditures). The financial data code all expenditures for each district by function (the general purpose of the expenditure, such as "instruction") and object (type of item purchased, such as "certificated salaries"), among other categorizations.

We obtained student enrollment and demographic data from Ed-Data¹³ for each district for each year. Finally, we obtained staffing counts by district from CA's staff assignment file from the CA Department of Education site.¹⁴ Teacher salary metrics (including average, lowest, and highest salary) were accessed from Form J-90 available via Ed-Data. Note that we didn't have to adjust our macro analysis to account for statewide enrollment growth as enrollment stayed essentially flat over the four years studied.

Statewide, we computed each district's per-pupil expenditures by each function and object for each year studied. Then, to explore changes in spending priorities, we examined how each expenditure type changed both in per-pupil dollars and as a share of the overall district budget. Similarly, we examined changes in the number of staff by type per 1,000 students during LCFF implementation. For salaries, we computed the year-over-year percentage changes to compare them with the percentage growth in overall expenditures.¹⁵

12. "Annual Financial Data," California Department of Education, accessed November 21, 2017, [http://www.ed-data.org/state/CA](https://www.cde.ca.gov/ds/fd/fd; FY12-13, FY13-14, FY14-15, FY15-16 for the General Fund ('Fund 01'); excludes County Office and JPA transactions. Per Pupil Expenditure data was obtained from Ed-Data.org - State Financials section: <a href=)
13. Data from the California Department of Education, retrieved from Ed-Data.org, accessed November 21, 2017, [http://www.ed-data.org/Comparisons?compType=districts](https://www.ed-data.org. Demographic and enrollment information by district are available on Ed-Data's 'District View' <a href=)
14. "Staff Assignment and Course Data," California Department of Education, accessed November 21, 2017, <https://www.cde.ca.gov/ds/sd/df/filesassign.asp> FY12-13, FY13-14, FY14-15, FY15-16.
15. "Certificated Salaries & Benefits," California Department of Education, accessed November 21, 2017, <https://www.cde.ca.gov/ds/fd/cs>.

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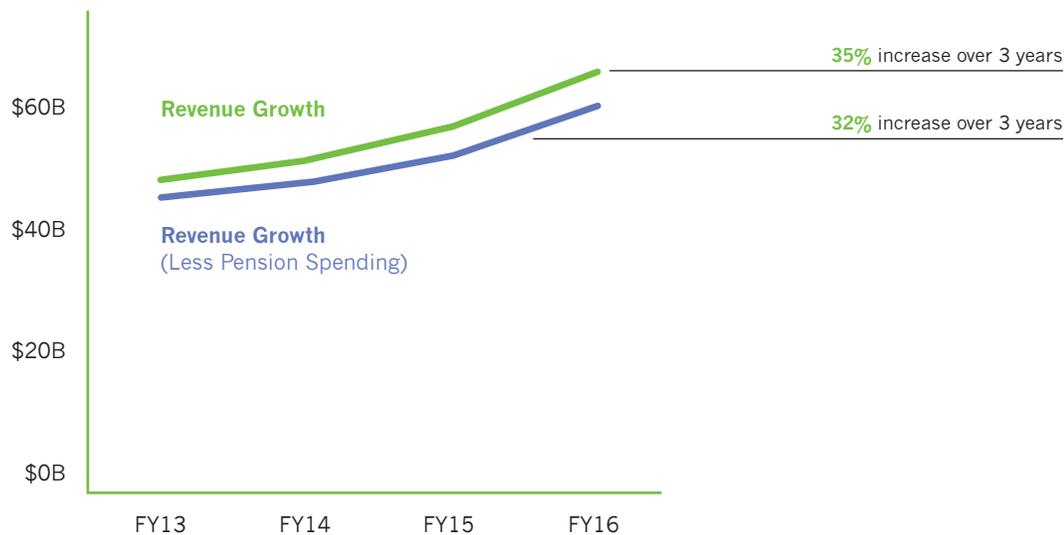
California’s rapid WSF formula implementation gave districts major new funds in the first three years

California’s economic boom resulted in more absolute dollars being pumped through the new formula more quickly than originally planned. This has allowed state leaders to make good on their promise to fully fund the new formula in a more timely manner than the eight years state economists predicted it would take to phase in.¹⁶ Annual funding has outpaced projections with larger year-over-year growth in each year of LCFF implementation. Year Three of implementation (FY16) brought total average per-pupil spending to \$11,268 from \$8,823 in Year Zero, the last year of the old funding model (FY13).¹⁷ Over the three-year post-LCFF period studied here, districts’ revenues grew by 35% and expenditures per pupil grew by 28%.¹⁸ Districts seemingly took advantage of the boost in state funding to grow their reserves by some \$3.4 billion across the state, amounting to more than \$600 per pupil. This accounts for most of the difference in growth between district revenue and district expenditures.

DISTRICTS’ REVENUE GREW EVEN AFTER MEETING PENSION COMMITMENTS

Much has been made of California’s requirement that districts boost their payments to the state pension system—and how much of the new LCFF revenues those payments are consuming. Figure 1 shows total growth in district revenues both before and after subtracting the state-mandated pension payments. While revenues minus pension spending grew by a more modest 32% over the three-year post-LCFF period, on average pension commitments **did not** consume all of California’s new education funds.

Figure 1: Even after obligatory pension payments, district revenue statewide grew 32% in LCFF’s first three years. Contrary to some predictions, pension obligations **did not** consume all new state funding.



Source: Ed-Data, statewide data.

16. The state set target dollar amounts and percentage weights in the formula that were to be phased in over eight years as the money became available. But LCFF is already 97% fully funded in Year Five, with the 2017-18 budget. See: 2017-18 Governor’s Budget Summary; page 2-3. “2017-18 California State Budget,” California Department of Finance, accessed November 21, 2017, <http://www.ebudget.ca.gov/FullBudgetSummary.pdf>.

17. These figures for total expenditures include all annual General Fund expenditures, which includes most federal, state, and local sources.

18. Figures reflect author calculations.

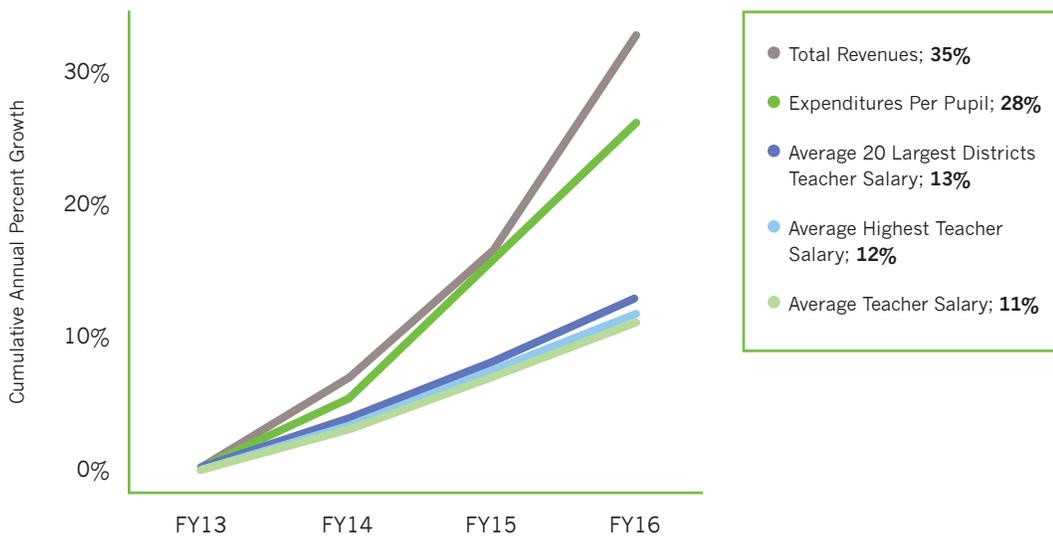
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Given substantial new funding and fewer spending restrictions, California’s district leaders had an unprecedented opportunity to strategically allocate resources among schools and make new investments. Would we see spending patterns start to change? On balance, early analysis suggests that the answer is “no” to major changes and “yes” to more minor ones.

Concerns over districts negotiating away the new funding unfounded

As the state debated adopting the new funding formula, concerns surfaced that if the state invested more dollars, districts would wind up negotiating away those dollars in teachers’ union contracts.¹⁹ Those concerns have proved unwarranted. As shown in Figure 2, districts did not use the new funding to disproportionately raise current teachers’ salaries. As indicated, even in the largest districts (where pressures from organized labor might be greater) average salaries grew by 13% over the same period that revenues grew by more than 35% and expenditures per pupil grew by 28%.²⁰ Since the dataset also includes the highest teacher salary in the district, we examined whether districts were disproportionately deploying raises to their most senior teachers. Here, we found slightly higher rates in raises (12% versus 11% for the average). But they were still well below the growth in revenues.

Figure 2: Cumulative increases in salaries lagged cumulative growth in revenues.



Source: Ed-Data, statewide data.

19. See for example: San Francisco Chronicle, accessed December 5, 2017, <http://www.sfchronicle.com/opinion/editorials/article/Editorial-California-s-school-funding-11758007.php> and LA School Report in partnership with The74, accessed December 5, 2017, <http://laschoolreport.com/lcff-money-for-teacher-raises-not-what-we-intended-says-ca-lawmaker/>.
 20. As mentioned earlier, in FY16 districts grew their reserves by some \$4 billion across the state, accounting for the difference between revenues and expenditures.

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These findings were consistent in our analysis of other common bargaining categories, such as employee benefits and retiree healthcare. In general, we did not see districts shifting spending in ways that showed blatantly disproportionate growth in labor-negotiated items.

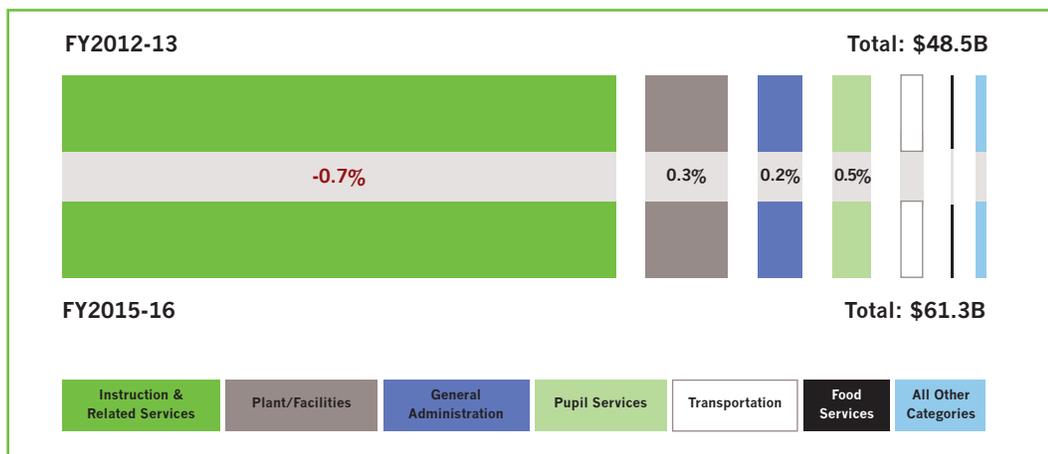
Concerns over radical shifts in spending unfounded, despite districts’ new spending flexibility

The concern that has repeatedly surfaced in the WSF debate, both in California and across the country is this: Without the safeguards of state prescriptions on district spending, districts will make different (and poorly conceived) choices about how to direct their funds. But our analysis found that despite being handed greater flexibility, districts have not made radically different spending decisions in the wake of the LCFF.

In the first three years of LCFF implementation, districts generally spent their money in the same general areas in roughly the same proportion that they did before the change in funding model.

Looking across all districts in the state, no spending by major function changed more than a fraction of a percent over the one-year pre-LCFF and three-year post-LCFF period studied (see Figure 3). These fractional changes showed up with Instruction spending shrinking the most (at -0.7%) and Facilities spending growing the most (at +0.3%).

Figure 3: By function, minimal spending changes as a share of total district expenditures after LCFF roll out.²¹



Source: SACS Unaudited Actual Data, excludes county offices of education, joint powers authorities, and districts that did not report across all four fiscal years analyzed.

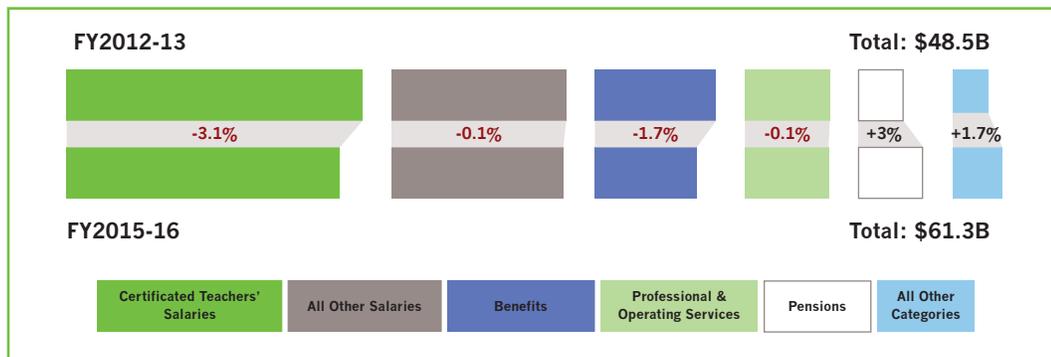
21. California School Accounting Manual Function code definitions used: Instruction & Related Services 1000-2700; Plant/Facilities 8100-9100; General Administration 7100-7700; Pupil Services 3110-3160, 3900; Transportation 3600; Food Services 3700; All Other Categories: 4000-6000 (excludes transfers)

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To further probe for any radical spending shifts or significant trends, we examined spending by object (which includes items like salaries, benefits, and pension spending) to see if any spending category consumed a substantially lesser or greater share of total budget than before LCFF went into effect.

We again find minimal spending changes as a share of total budget when examining spending by object, as shown in Figure 4 below. Certificated Teachers’ Salaries spending shrank the most (by -3%) while Pension spending grew the most (by +3%).

Figure 4: By object, minimal spending changes as a share of total district expenditures after LCFF roll out.²²



Source: SACS Unaudited Actual Data, excludes county offices of education, joint powers authorities, and districts that did not report across all four fiscal years analyzed.

The analysis shown in Figure 4 does not mean that districts spent less on salaries in the wake of LCFF. As Table 1 on page 12 indicates, spending on salaries still grew an average of 18%. Both the average teacher salary and the number of teacher FTEs increased in the wake of LCFF (see Figure 2 on p. 9 and Table 2 on p. 13.) Despite these increases, as a share of total budget, certificated salaries overall shrank to 60% from 63%. In other words, salary spending just didn’t grow as fast as overall spending, at 28%.

In fact, looking at the spending changes through the lens of per-pupil expenditures as shown in Table 1, Certificated Teachers’ Salaries saw the biggest dollar increase, at an average of \$618 per pupil. The second-highest dollar increase in a single category went to the State Teachers’ Retirement System for certificated positions, at \$435 per pupil. Notably, this was also the highest percent change in per-pupil spending, at 129%.

22. California School Accounting Manual Object code definitions used: Certificated Salaries 1100; All Other Salaries 1200-2900; Benefits 3301-3902; Professional & Operating Services 5100-5900; Pension 3101-3202; All Other Categories 4100-4700, 6100-7439 (excludes transfers)

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Other objects that saw larger percentage growth were Professional/Consulting Services and Materials and Supplies. While this study couldn’t measure the rationale behind the spending choices, given future pension liabilities and/or the uncertainty of continued growth in state dollars, districts may have chosen to disproportionately spend new money on non-staffing items that are easier to adjust down in future years.

Table 1: Certificated Teachers’ Salaries increased the most in per-pupil dollar terms, despite shrinking as a share of total expenditures. State Teachers’ Retirement System increased the most in percentage terms.

Per Pupil Spending Increase by Major Object Category	FY13 PPE	PPE Dollar Change	Percent Change FY13 to FY16
Total PPE (All Objects)	\$8,823	+\$2,445	+28%
Certificated Teachers’ Salaries	\$3,469	+\$618	+18%
State Teachers’ Retirement System, Certificated Positions	\$338	+\$435	+129%
Professional/Consulting Services and Operating Expenditures	\$388	+\$136	+35%
Classified Support Salaries	\$469	+\$113	+24%
Health and Welfare Benefits, Certificated Positions	\$550	+\$105	+19%
Certificated Supervisors’ and Administrators’ Salaries	\$380	+\$99	+26%
Materials and Supplies	\$222	+\$97	+44%
Classified Instructional Salaries	\$306	+\$85	+28%
Clerical, Technical, and Office Staff Salaries	\$361	+\$84	+23%
Health and Welfare Benefits, Classified Positions	\$271	+\$58	+21%
All Other Categories (total)	\$2,069	+\$615	+30%

Source: Ed-Data, statewide data.

Districts added staff but not at the pace of revenue growth

Salary boosts accounted for just one piece of the increased labor spending in the three years post-LCFF; the other piece came from the addition of new staff. Since FY13, total FTE grew by 9%. As shown in Table 2, Classified Staff made up more than half of the increase in overall FTE numbers. In pupil services roles, Psychologists increased at the highest rate of 21%, followed by Social Workers at 19%.

Districts also invested in teaching over this four-year pre- and post-LCFF period, adding 10 new teachers for every administration position, representing a 6% increase in Teachers.

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Table 2: Classified Staff grew the most in sheer numbers; Psychologists grew the most in percent change.

Staffing Category Changes from FY13 to FY16	FTE FY13	FTE Change Absolute Numbers	FTE Change in Percent
Total FTE	537,234	+48,007	+9%
Classified Staff*	216,699	+26,454	+12%
Teachers	273,802	+16,177	+6%
Principal / Vice Principal or Associate Administrator	13,369	+1,702	+13%
Counselor	7,218	+1,225	+17%
Psychologist	3,753	+793	+21%
All Other Pupil Services**	6,639	+496	+8%
Administrative & Leadership Positions***	8,780	+449	+5%
Speech-Language Pathologists	4,397	+431	+10%
Nurse	2,145	+197	+9%
Social Worker	431	+84	+19%

Source: DataQuest and staff assignment file, statewide data. * Classified staff were not calculated using FTE until FY14. Therefore, used FY14 Classified Staff data from Ed-Data. All other FTE data attained from DataQuest. **All Other Pupil Services Counselor and Psychologist have been pulled out of this total and placed in their own categories. This broad category includes positions like Speech-Language Pathologist, Nurse, Social Worker. ***Administrative & Leadership Positions Principal / Vice Principal / Assoc. Administrator have been pulled out of this total and placed in their own categories. This broad category includes positions like Superintendent, Administrative Instructional/Curriculum Services, Special Education Administrator.

Viewed at this macro level, both the spending and staffing data indicate efforts to add teachers and improve availability of student services across the state, although not at a pace that matches the increase in revenues. During the period studied, California experienced a relatively tight labor market with reports of teacher shortages. We are unable to explore here whether districts would have hired more teachers if they could have.²³

Limited data suggest districts did use their flexibility to “customize” spending, albeit on the margins

Granting districts more flexibility to apply funds in ways that let them best maximize their students’ outcomes is a cornerstone of WSF. The LCFF funding formula was promoted in part to allow each district to “customize” spending based on its unique needs.

23. H. Blume, “California faces a looming teacher shortage, and the problem is getting worse,” Los Angeles Times, accessed November 21, 2017, <http://beta.latimes.com/local/education/la-me-edu-california-teacher-shortage-20161129-story.html>.

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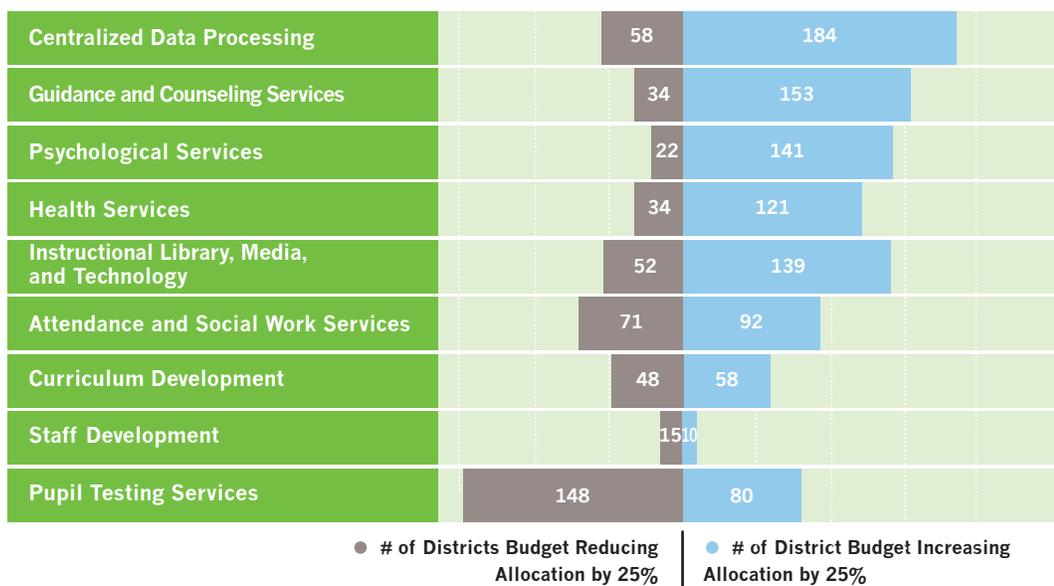
So a key implementation question is: Do districts ultimately tailor their spending to the unique conditions in their districts? Or, do all, or most, districts’ spending priorities wind up looking the same?

Evidence from the first three years of LCFF implementation suggests that California districts generally did use their flexibility, albeit only modestly thus far. It is possible that districts did this to better align spending with local priorities. But discerning intent is beyond the scope of this analysis.

We saw substantial variation when we looked at the smaller functional areas to see where districts opted to notably shift resources. Where some districts added funding, others chose to reduce funding. For example, of 529 districts sampled,²⁴ 148 reduced spending on Pupil Testing Services by at least 25% and 80 increased spending by at least 25% in that area. Some 34 districts reduced spending on Guidance and Counseling Services while another 151 districts increased spending there. These variations shown in Figure 5 below may suggest different priorities for different districts.

These smaller functional areas together represent a small portion of districts’ total budgets, but they are exactly the types of areas where district officials might customize to support specific improvement strategies.

Figure 5: Districts varied in budget shifts by function, suggesting some effort to customize for local need.



Source: SACS Unaudited Actual Data, excludes districts with fewer than 1,000 students and/or did not report across all four fiscal years analyzed.

24. “Annual Financial Data,” California Department of Education, accessed November 21, 2017, <https://www.cde.ca.gov/ds/fd/fd>. Excludes districts under 1,000 students and districts that did not report financials across all four fiscal years analyzed, for a total of 529 districts represented.

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Districts boosted specialized staff spending: Plausible effort to help the highest-need students

States commonly shift to WSF models with the goal of driving more dollars to the highest-need students: California was no exception with LCFF. Specifically, California’s new WSF formula increased allocations apportioned by numbers and concentrations of foster youth, students with limited English and those living in poverty, in addition to grade-specific weights.

Table 4: Local Control Funding Formula (LCFF) weights calculated in 2015-16.²⁵

Student types	Base Allocation**
Grades K-3	\$7,820
Grades 4-6	\$7,189
Grades 7-8	\$7,403
Grades 9-12	\$8,800
English Learner*	+20%
Low Income*	+20%
Foster Youth*	+20%

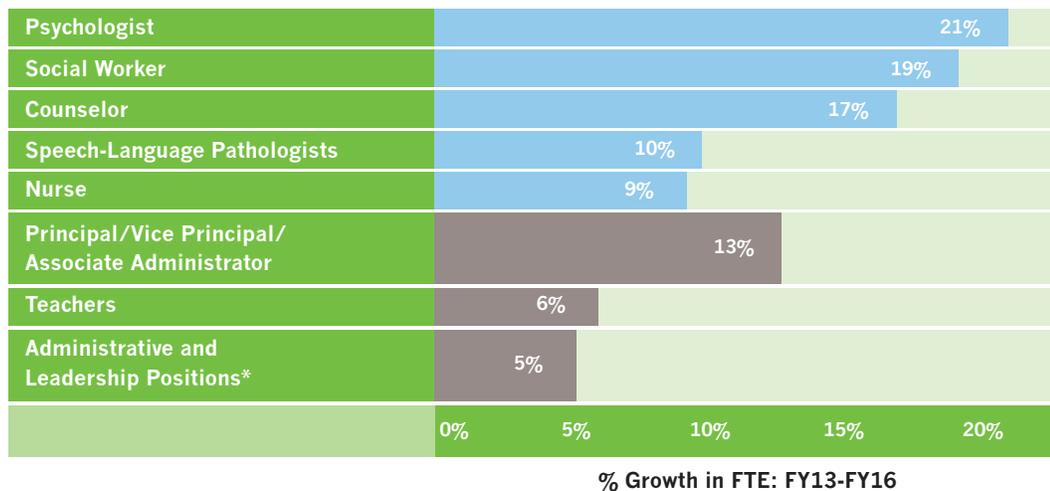
*Concentration funding added at 50% of base weight for any district with a high proportion of EL/LI students and foster youth (unduplicated count exceeding 55% of total district enrollment). **LCFF Target Pates Calculated in 2015-16.

How did districts spend these weighted dollars from the state? While the weighed funds (those tied to enrollment counts of high-needs students) aren’t isolated in the district files, overall, our analysis shows California’s districts did grow the number of staff across the board in the first three years of LCFF implementation. And staff growth by percentage was biggest in the areas of critical services that tend to support disadvantaged students—student populations like those weighted in the formula. (See Figure 6) These positions include counselors, psychologists, and social workers. Notably, this trend of increased investment in specialized staff was not a reaction to rising enrollment: Statewide enrollment remained essentially constant over the three-year post-LCFF period studied.

25. “Overview of Local Control Funding Formula and New State Accountability System,” California Legislative Analyst’s Office, accessed November 21, 2017, <http://www.lao.ca.gov/handouts/education/2016/Overview-Local-Control-Funding-Formula-030816.pdf>.

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Figure 6: Districts grew their pupil services staff at a higher rate than their teaching and administration staff from FY13 to FY16.



Source: DataQuest, statewide data.*Administrative & Leadership Positions Principal / Vice Principal / Assoc. Administrator have been pulled out of this total and placed in their own categories. This broad category includes positions like Superintendent, Administrative Instructional/Curriculum Services, Special Education Administrator.

The figure above does not tell us whether these specialized staff positions are tied to services for the target populations identified in the formula or are otherwise benefiting these populations who generated the weighted dollars. This paper does not examine how districts doled out their resources on a school-by-school basis or whether the weighted dollars followed the weighted students to their schools; nor does it discern district intent in use of funds.

Of course, using their spending flexibility to hire specialized staff to serve higher-need students targeted in the WSF is not the only reasonable strategy districts can pursue to improve student outcomes and close achievement gaps. For instance, where districts added teachers rather than pupil-services staff, they may have sought to close achievement gaps by reducing class sizes.

We must underscore that California’s funding law does not *require* the weighted dollars to follow the weighted students to the schools they attend. Paper Two sheds light on early district-to-school allocation patterns.

And as to the critical question of whether (or the degree to which) outcomes have improved following spending pattern shifts like those shown in Figure 6, Paper Three discusses early indications in this area.

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States can flag district-by-district outliers by tracking district spending shifts

Here, we examine the extent to which *individual districts* might have made big spending changes that would not show up in the aggregate analysis.

As shown in Table 3, we examined financial data from 529 districts²⁶ by object to surface any substantial spending shift pre- and post- LCFF. We list those objects of spending by their overall size (in per-pupil expenditures) and count the number of districts where spending on a given object grew by more than 50% and by more than 100%.²⁷

Analyzing individual districts reveals some small variations in the actual dollars spent over time by object category. For example, a budget category representing 10% of the total budget moving to 11% would represent a 10% relative movement.

Though these are small changes in investment in relation to districts' total budgets, they are worth watching.

Larger spending changes may still be rational, but might warrant additional explanation. For example, Table 3 shows that 15 districts more than doubled their spending on Professional/Consulting Services; three districts more than doubled their spending on Health & Welfare Benefits for classified positions; and 10 districts more than doubled their spending on Classified Supervisors' and Administrators' Salaries. Not surprisingly, the data also show many districts (69) more than doubling spending on pensions (which fits with the larger state fiscal context).

It could be telling for policymakers and educators if future research could create accessible, transparent reports that illustrate in greater detail what districts bought and, where appropriate, why they invested more in a given object area. With such reports, districts can add context and offer their rationales for different choices.

SPENDING PATTERNS NOT SUBSTANTIALLY DIFFERENT FOR DISTRICTS WITH MORE MODEST REVENUE GROWTH

At the study's outset, we intended to compare spending patterns of districts that received substantially new dollars under LCFF with those that didn't receive much in the way of new funds (but still were awarded the new flexibilities.) But during the period studied, state revenues grew and nearly all districts saw revenue growth (albeit some less than others). For each analysis, we did compare those with more rapid revenue growth to those with slower growth. But because we didn't find any meaningful differences to report, those analyses are not detailed in this paper.

26. Not all 529 districts reported in every object category listed in the state chart of accounts.

27. Note: These percent spending increases are on top of/beyond the 35% overall revenue growth districts experienced with new state dollars pumped into the funding formula in the first three years of LCFF.

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Table 3: Expenditure checks like this can help identify districts with more radical spending shifts.

Expenditure by Object	FY16 Statewide Average PPE	Number of Districts with Spending Growth	
		>50%	>100%
		Between FY13 and FY16	
Certificated Teachers’ Salaries	\$4,087		
State Teachers’ Retirement System, Certificated Positions	\$773	404	69
Health & Welfare Benefits, Certificated Positions	\$655	5	3
Classified Support Salaries	\$582		
Professional/Consulting Services	\$524	70	15
Certificated Supervisors’ and Administrators’ Salaries	\$479		
Clerical, Technical, and Office Staff Salaries	\$445		
Classified Instructional Salaries	\$391	13	1
Health and Welfare Benefits, Classified Positions	\$329	6	3
Certificated Pupil Support Salaries	\$322	36	8
Materials and Supplies	\$319	73	17
Subagreements for Services	\$266	63	40
Operations and Housekeeping Services	\$223		
Public Employees’ Retirement System, Classified Positions	\$173		
Other Certificated Salaries	\$137	102	61
Classified Supervisors’ and Administrators’ Salaries	\$134	38	10
Other Classified Salaries	\$126	41	17
OASDI/Medicare/Alternative, Certificated Positions	\$179		
Workers’ Compensation Insurance, Certificated Positions	\$121	91	42
Noncapitalized Equipment	\$119	256	184
Rentals, Leases, Repairs, and Noncap Improvements	\$104	107	47

Source: SACS Unaudited Actual Data, excludes districts with fewer than 1,000 students and/or did not report across all four fiscal years analyzed.

Lessons learned and looking ahead: Does absence of radical change mean LCFF is “not working”?

Our analysis offers evidence that districts on the whole have not made radical changes in the wake of California’s sweeping move to a weighted student funding formula. Predictions of wholesale irresponsible or ill-conceived spending choices in the absence of state prescription have not been borne out in the statewide trends examined here.

State policymakers concerned that rolling back state strictures on spending will create some sort of Wild West district spending landscape should know that the state has other tools at its disposal to identify and check radical or “rogue” spending. States can easily use tools like Table 3 in the section above to flag districts making big spending shifts

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for follow-up communication. And—in the name of financial transparency—states can require districts to include in their publicly approved and posted budget narrative an explanation for any spending changes over a set dollar or percentage threshold.

Changing an education funding formula is a tremendous undertaking and usually provokes political opposition. Had economic conditions in California not been as favorable when the state rolled out its new formula in the time frame studied here, opposition would likely have been louder. Some California districts would have faced fiscal pressure as rising fixed costs outpaced those costs protected by LCFF’s hold-harmless provisions—provisions the state revenue growth made possible. Other states interested in pursuing weighted student funding may face quite different economic and political contexts.

Some might look at our central finding in this paper—that broad spending patterns remained relatively unchanged in the wake of the new law—and question the utility of such a drastic funding overhaul, both for California and for other states pursuing or simply contemplating the option. But finding an absence of dramatic changes in this initial three-year implementation period does not mean the effort has—or will continue to have—no value. Though spending changes were small in nature, we saw evidence of localized spending patterns emerge with each successive year studied. These are still early days: We wouldn’t expect all districts to readjust to the new model overnight or at the same pace.

States are turning to student based funding formulas to both promote productive use of resources and ensure some measure of equity. These formulas are designed to let states both direct funds on the basis of student need (advancing equity) while leaving the dollars flexible enough for districts and schools to decide how best to leverage them to maximize outcomes for their students (advancing productive use of resources).

Given the policy aims above, the more meaningful measure of LCFF success rests on whether districts’ individual spending decisions (versus state-prescribed ones) are targeting the intended students; yielding increased educational outcomes; and showing progress in closing the achievement gap. Papers Two and Three in this series explore the early evidence around these core questions.

THIS SERIES OF RAPID RESPONSE BRIEFS IS DESIGNED TO BRING RELEVANT FISCAL ANALYSES TO POLICYMAKERS AND EDUCATION LEADERS AMIDST THE CURRENT ECONOMIC ENVIRONMENT.

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Edunomics Lab is a university-based research center dedicated to exploring and modeling complex education fiscal decisions and growing the capacity of education leaders on the topic of education finance. The Edunomics Lab is affiliated with the McCourt School of Public Policy at Georgetown University.