

**Meeting 38 Summary**  
**Feeling the Pinch: Navigating Financial**  
**Pressures in Pursuit of Educational Quality & Equity**

March 28–29, 2019  
Elk Grove, California

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***Note:** This meeting summary was developed as a resource for members of the California Collaborative on District Reform. We are making this document publicly available in an effort to share the work of the Collaborative more broadly to inform the dialogue and decisions of educators throughout the state. This summary does not, however, contain the background and contextual information that might otherwise accompany a product created for the general public. For more information about the meeting and other Collaborative activities, please visit [www.cacollaborative.org](http://www.cacollaborative.org).*

Over the past decade, California schools have embraced fundamental policy changes that range from new academic standards to a transformed system of school finance, all in a context where a recovering state economy has contributed increasing revenues to K–12 education. Despite these promising developments, however, increasing costs and financial obligations make it difficult for districts to improve—or even maintain—the experiences they offer students and the working environments they create for adults in schools and school systems.

The 38th meeting of the California Collaborative on District Reform sought to identify and address these pressures on district budgets. Participants began by unpacking the problem, using concrete examples from practice and research to illuminate the sources of financial burden and the ways these constrain district action. Presentations from district participants then illuminated examples of innovative practice that have helped address some of these issues in their local contexts. The meeting next took up the question of adequacy, including two proposals for increasing the total funds available to the K–12 education system. Finally, participants considered the conflicting narratives around revenues and spending in California schools: How do different stakeholders understand and frame the issues, to what extent does public dialogue focus in the right areas, and how might we shift the multiple narratives to support progress at the state and local levels?

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<sup>1</sup> Thanks to Marina Castro, Linda Choi, Kathleen Jones, and CoCo Massengale for taking careful notes during the meeting and thus making this summary possible.

## **Cross-Cutting Observations About District Financial Pressures**

Across the 2 days of dialogue, several common themes emerged related to financial challenges and strategies at the local and state levels for addressing them.

### ***Maintain a Focus on Students***

As districts transition from understanding the financial challenges to finding solutions to them, meeting participants emphasized that improvement efforts need to focus on what is best for students. Conversations about fiscal pressures frequently turn to considerations of legal compliance, programmatic cuts, or political dynamics. In contrast, discussions during the meeting about innovative practices highlighted approaches that were driven primarily by providing better services, not just lowering costs. Although these examples often achieved greater efficiency, the driving force behind them was doing right by kids.

To maintain a focus on students, participants frequently argued for the need to move away from traditional power dynamics and break down silos. Individuals and groups can become territorial about areas where they have responsibility. There are sometimes pressures to look for ways to exploit struggles to achieve advantages. Successfully navigating crises calls for adults to instead find ways to work together in service of shared goals.

### ***Attend to Adult Needs***

Discussions about district financial pressures often call attention to rising costs for teachers and other adults in school systems, especially in areas like pensions and health care benefits. It is tempting to see these obligations as distractions from a focus on student needs. Nevertheless, participants observed at various points during the meeting that thriving schools depend on high-quality teachers. Those teachers have joined the profession with the expectation that they will make a living while they work and will sustain their livelihood after retirement. Any solution to financial issues must also recognize the needs of teachers and other education professionals.

### ***Attend to Both Adequacy and Efficiency***

Given a driving focus on students, districts look for ways to meet student needs given their financial constraints. Navigating current fiscal pressures requires action on two fronts. The first is efficiency. The resources available for public education are limited, and never sufficient to meet the needs of all students. Districts and their partners therefore need to find ways to achieve the best outcomes for the money they invest.

At the same time, the education community needs to continue to beat the drum for adequacy. The system needs more money, and sustained pressure to recognize and address the shortages that exist are important. Moreover, all of the financial challenges districts are facing are happening in the context of a strong state economy—these issues will undoubtedly become more pronounced when the current period of growth inevitably slows or reverses.

### ***Build, Maintain, and Leverage Trust***

Throughout the meeting, participants emphasized that trust is fundamental to making meaningful progress on financial issues. Calling into question whether an individual or organization is being truthful or forthcoming about their resources, their decisions, and the results they produce can undermine efforts to identify solutions cooperatively. In some districts, adversarial labor–management relationships complicate already high-stakes fiscal decisions. Referring to one of these situations, a participant observed, “There is something invisible to the relationship that will continue to keep both sides locked up ... until they can see each other as human beings that have hopes, beliefs, and challenges.” Even beyond these challenges, schools and districts may confront policymakers and members of the general public who want to see clear results for the money that has already gone into education. As one person reflected, “We have to make the case that you can trust us with increased revenue.”

The meeting featured several examples of places where trust has enabled effective strategies for addressing fiscal challenges. In one district, for example, a coalition of district leaders and labor partners have joined together to negotiate more competitive health care benefits. In another district, a partnership between district and union leaders has enabled them to save valued student services while developing policies that facilitate quality teaching and learning. In response to these and other examples, one participant commented, “In all the places where we saw differences being made, trust was a core contributor. It really is about building trust and breaking down information asymmetry.”

Observations throughout the meeting suggested that trust among actors at the local level is critical to making progress in districts and their communities. Just as important, however, is building trust in public education across the state and beyond.

### ***Walk the Equity Talk***

Equity is essential to many district approaches, but commitments can falter in the face of difficult choices. Districts often embrace equity as a fundamental component of their mission to serve students. State policy often aspires to do the same. For example, the Local Control Funding Formula (LCFF) explicitly grants increased resources to districts serving higher percentages of English learners (ELs), foster youth, and students from low-income families. Parents and other community members can likewise take up the cause of equity in their public actions and voting decisions.

In resource-constrained environments, however, districts face difficult decisions about how to allocate limited resources. Advancing equity often means taking proactive steps to meet the needs of students who have been historically underserved—providing those students with supports that other students do not receive. When those decisions happen, the commitment to equity among more advantaged families can shift. As one meeting participant observed, “Everyone loves equity until it negatively impacts them, and then they show up at public comment and want equality.” Articulating what equity means for a district and supporting that view through resource allocation and programmatic decisions is a crucial component of district strategies when working through fiscal challenges.

### ***Overcome Problematic Incentive Structures***

Despite mounting costs and obligations, school systems have limited incentives to achieve greater spending efficiency. State and federal oversight for financial decisions rarely make any connection between district expenditures and associated student outcomes; the emphasis instead is typically on compliance or solvency. This poses challenges across several different types of costs. For example, employees and their unions seek the best health care benefits possible for themselves and their families. Health care providers, in turn, look for ways to increase revenues and cut their own costs to maximize profits. When districts have limited time, knowledge, or other resources to consider alternative options or compare their plans with those of comparable districts, or when contract provisions constrain their choices, costs increases are unlikely to abate. As another example, in the area of special education, students with disabilities have important legal protections, and districts may be unwilling to embrace alternatives to special education identification if they see that decision as making them susceptible to a lawsuit.

### **Understanding the Fiscal Pressures Facing School Districts**

The meeting began with an examination of the challenges confronting school districts and the implications of those challenges for moving forward.

#### ***A Case of Mounting Fiscal Pressures***

Meeting participants began by reviewing the case of a specific California school district. Although revenues have steadily increased in this district for several years, those increases are outpaced by bigger increases in a variety of costs. As in most districts, the majority of the district's budget covers salaries and benefits. A recent salary increase that was passed despite the warnings of the county office of education represent one district obligation. In addition, the district's collective bargaining agreement stipulates that the district pay the full cost of teachers' health care—a benefit whose costs have increased 160% since 2006. The district also faces growing obligations for pensions through the California State Teachers Retirement System (CalSTRS) and the California Public Employees Retirement System (CalPERS), with spending projected to grow from \$7.5 million in 2016–17 to a whopping \$38 million in 2020–21. At the same time, special education costs have risen—a challenge exacerbated by the district's higher-than-the-state-average percentage of students with disabilities and a reimbursement rate that is among the lowest in the state. In addition, declining overall enrollment in this district is reducing the funding the state provides based on average daily attendance (ADA).

Beyond the numbers of this district's story, acrimonious relations with the teachers union have underscored challenges in politics, messaging, and trust. Many of the fiscal challenges for the district are embedded in contract language passed years ago that limits district options, but that the union has fought to preserve. Just as important, many years of adversarial interactions between the district and the union have made it difficult to find common ground in designing solutions to its challenges.

Taken together, the elements of this district case illustrated the contributing and interacting factors with which many districts are struggling. In response to this case, reflections from meeting participants suggested that although the pressure points exist in some of their most extreme forms in this district, the main ideas applied to districts across the state. Participants further observed that these struggles have grown in the context of a strong statewide economy; changes in California’s financial situation could plunge many districts into a crisis by turning today’s challenges into overwhelming obstacles.

### ***Reflections From Research***

To place the district case in the broader statewide context, authors of two recent research reports on fiscal issues in California shared findings and reflections from their work.

#### ***Insights From the Silent Recession***

In 2018, WestEd released a pair of reports detailing the mounting financial pressures facing districts, and system responses to those challenges. *Silent Recession: Why California School Districts Are Underwater Despite Increases in Funding*<sup>2</sup> and *Education Budget Strategies for Challenging Times: How California School Districts Are Addressing the Silent Recession*<sup>3</sup> lay out the factors that can destabilize district budgets and force reductions in services to students, as well as strategies to address those issues. Collaborative member Jason Willis, a co-author of those reports, shared some key takeaways.

First, the cost structures and revenue-raising mechanisms for school districts are on a collision course. Some of the primary cost assumptions—for example, pension costs—are fixed expenses, and because they continue to rise, they erode space within district budgets to allocate resources for students. Despite these increases, the structure for funding public education in California—governed by policies like Propositions 13 and 98—is unlikely to provide revenue growth that keeps pace with districts’ rising expenses. The result, for 53% of the districts sampled for the *Silent Recession* analysis, is that expected expenditures will exceed revenues in all three of the 2017–18, 2018–19, and 2019–20 budget years; only 17% of the districts expect revenues to outpace expenditures for all three years. This situation is an uncommon one in the country. Whereas most states task the same group of leaders with making revenue and expenditure decisions, California divides those responsibilities between the state (which determines revenues) and districts (which govern expenses).

A persistent challenge in the funding formula also persists: LCFF lacks any adjustment for geographic cost differences. The higher cost of living in coastal areas of the state increases the financial pressures on those districts, yet they receive no additional revenue to manage the higher salaries and other costs associated with their location.

Despite structural challenges, California is unlikely to see a major policy change that will address today’s fiscal struggles. Windows to overhaul the school funding formula are rare.

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<sup>2</sup> See <https://www.wested.org/wp-content/uploads/2018/05/resource-silent-recession-2.pdf>

<sup>3</sup> See <https://www.wested.org/wp-content/uploads/2018/12/Silent-Recession-II-Budget-Strategies-Report.pdf>

LCFF dramatically changed the way in which California allocates funding to districts, but the most recent major shift before that was nearly 40 years prior. In other states, change is similarly uncommon; the policy window for these overhauls typically takes place every 20–30 years.

Another challenge is that California’s current system lacks identifiable incentive structures to evaluate and take action on cost-effectiveness. Calls for multi-year budget projections push districts to provide stability in order to demonstrate solvency. The result of this practice is that it disincentivizes systems to think beyond their current structures and organization of their resources. The Local Control and Accountability Plans (LCAPs) that districts produce ask for results in theory, but the system lacks any follow-through based on those results. Without evidence of cost-effectiveness, legislators often respond to calls for more money with this reaction: “We already gave you more money. Why are we not seeing improvement?”

Willis concluded by offering a framework for assessing budget strategies. Consider a graph where the y-axis represents budget impact (lower values indicate minimal impact and higher numbers demonstrate substantial impact) and the x-axis represents locus of control (with lower values representing more local agency and higher values representing more state or federal control). In a system like California’s, which is predicated on the principle of subsidiarity, the desired target is the upper left quadrant of the graph, with high levels of budget impact and local control. Identifying strategies that meet these criteria, and developing an evidence base that supports them, may be important for moving forward.

### *Insights From the Big Squeeze*

*The Big Squeeze: How Pension Costs Threaten Educational Equity*<sup>4</sup> is the product of a joint research project involving Pivot Learning, The Education Trust—West, and the University of Missouri. The report examines many of the same issues as *Silent Recession*, but with a focus on pension costs as viewed through the lens of educational equity. Motivating the research was an observation from the field: When the economy is booming and school revenues are increasing, why are districts having to cut budgets? California’s school system faces the competing obligations of maintaining commitments to retirees, investing in and supporting teachers, and providing its diverse student population with a high-quality education. Collaborative member Arun Ramanathan, one of the report’s co-authors, offered his summary of the research and some additional reflections.

Rising pension costs are limiting what districts can do for students, with notable implications for equity. In response to pension and benefits costs that have increased by 5%, certificated salaries are expected to drop by 5%. Beyond salaries, the relationship between pension obligations and equity merits particular attention. Districts are cutting costs by deferring maintenance, allowing larger class sizes, rolling back enrichment opportunities, delaying the purchase of instructional materials, reducing counseling and health supports, and limiting access to technology. These issues affect all students, but they

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<sup>4</sup> See <https://www.pivotlearning.org/wp-content/uploads/2019/05/the-big-squeeze-report-april-2019.pdf>

affect high-needs students the most. Moreover, in order to cover pension costs increases, districts are tapping into funding sources intended to serve ELs and students from low-income families. In 2017–18, 44% of the districts sampled for the report spent more on CalSTRS and CalPERS than they received in supplemental and concentration grants. To them, infusing more money into LCFF while burdening districts with increased pension costs feels like a bait and switch.

Despite these challenges, there are proactive steps districts can take. Ramanathan argued that state policymakers and community members are largely unaware of the issues: “These issues are very, very poorly understood ... because they are placed in the language of [chief budget officers] and not the language of serving kids and equity.” Collaboration among stakeholders may be critical for fostering a shared understanding of this “big squeeze,” make tough decisions, plan ahead, and advocate for a statewide solution. As local actors look for solutions, they can align their instructional goals and initiatives with the fiscal realities of their districts. As part of this effort, districts should be careful to only make investments they can sustain in both good and bad times.

The state can also play a role in improving districts’ financial situation. Increasing revenues for education is one solution. *The Big Squeeze* suggests moving unfunded liabilities—those legacy costs that have accrued over time for former employees—outside of Proposition 98, enabling districts to use funds provided through Proposition 98 to support current teachers and students. Other states can also offer models for reducing costs and debt. Finally, just like districts, state leaders should be careful to make only those spending and programmatic commitments the state can sustain over time.

Ramanathan closed with three observations. He first cautioned participants not to buy into the expectation that Sacramento will fix the state’s current financial situation; local actors may need to advocate for their own solutions. Second, the context for this discussion will shift based on the direction of the state economy. A plateau or decline in state funding will further limit district options. Finally, Ramanathan observed that the bulk of the benefit for Proposition 13, which limits property taxes, goes to homeowners, who are overwhelmingly white. As the already diverse student population in California continues to reflect a range of backgrounds, and as issues of race become increasingly prominent in public discourse, individuals and groups may begin to question the fairness of Proposition 13 more vocally and persistently.

### ***Additional Observations About Fiscal Pressures***

Through discussion about the district case and the two research reports, meeting participants shared additional reflections about California education’s financial challenges. First, support for LCFF and the positive messaging surrounding it can give the false impression that it has solved the state’s education finance issues. In reality, LCFF was about *equity*. It changed the system of resource allocation to respond to different levels of student need. LCFF did not address issues of *adequacy*. California is a state with a high tax rate—among the top 10 states nationally—yet education spending still ranks 41st among the

states. Even if the education pie is distributed differently than before, the pie is still not large enough to meet the state’s needs.

Participants also observed that even though increasing costs create pressures for districts, those costs pay for services that are important in their own right. Pension costs, for example, represent promises made to teachers who chose to dedicate their careers to education—often accepting stability after retirement as one benefit of working in a profession with comparatively low salaries. Those people depend on their pensions. One participant posed a question about the importance of pensions in maintaining a strong teaching force: “If we allow pensions to slip on top of salary, who is going to go into teaching?” Although voters are often willing to support parcel taxes for student-related programs, the same level of support is unlikely to materialize to support pension payments.

## **Improving Quality and Efficiency in Two High-Leverage Domains**

Despite the difficult circumstances that districts are navigating across the state, bright spots exist. District teams shared practices they have employed to improve quality and efficiency in two areas where costs have markedly increased—special education and employee benefits.

### ***Pursuing Cost-Effectiveness in Special Education***

The resources districts spend to serve students with disabilities frequently exceed the funds they receive from the state for doing so, thus requiring large contributions from the general fund. District leaders from Sanger USD and another district shared strategies they have employed to improve the special education supports they provide and, in the process, reduce costs.

#### ***Reducing Identification Through Early Intervention in Sanger***

Early monitoring and intervention have helped Sanger USD provide more effective special education services. The district employs a system-wide multi-tiered system of support (MTSS) as the fundamental mechanism through which it monitors and supports all students.<sup>5</sup> Tier 1 of the system spells out the best first instruction and other supports that all students receive. Tier 2 incorporates the extra supports that some students need, and Tier 3 provides for more intensive intervention for a smaller subset of students. The MTSS began with a heavy emphasis on academic needs and has expanded over time to include behavioral supports and a broader focus on social and emotional needs.

Through the monitoring and early intervention that the MTSS enables, Sanger USD is able to address many student needs earlier and more effectively, thereby reducing referrals for special education services. This approach has resulted in a drop in special education identification from 11% of students to about 7%; that difference reflects about 500

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<sup>5</sup> The California Collaborative explored this system in depth during its June 2018 meeting in Sanger. For a summary of that meeting and resources related to Sanger’s MTSS, please see <https://cacollaborative.org/meetings/meeting36>.



students.<sup>6</sup> Considering that services for students with disabilities cost an average of \$9,369 more per student than the services for a student exclusively served within general education, district leaders estimate a cost savings of roughly \$4.6 million per year.

Beyond the district-wide MTSS, Sanger USD offers an early childhood program featuring its Preschool Articulation Language Services (PALS) and a preschool inclusion class. Through these programs, students in this program typically receive 30 half-hour sessions of speech support. District leaders report that after experiencing this service, 35 students exited the speech program before kindergarten began, representing a savings of \$46,200. Furthermore, district leaders believe that because the preschool inclusion classroom allows students with autism to become familiar with the structures and expectations of a school setting, it reduces the need for more intensive services later.

Finally, Sanger USD leaders described efforts at the secondary level to provide behavioral supports to students. Tier 1 of the MTSS features programs like Positive Behavior Interventions and Supports (PBIS), Second Step, restorative justice, and attendance incentives. District leaders report that the restorative justice program in particular has been effective at keeping students in school: the program in Sanger High School has saved 275 days of suspension through March 15, 2019; it has also saved 278 days of suspension at the middle school level. These changes help keep students engaged in the school setting and better prepared to navigate both academic and social and emotional challenges. At the same time, they also increase the ADA in schools, which connects directly to the amount of state funding that Sanger USD receives. The reduced suspensions at the high school alone, district leaders report, have produced an additional \$16,500 in revenue through ADA.

Sanger district leaders reported that although their work has produced some cost savings, that has not been their motivation. Indeed, district leaders generated some of their estimates solely in preparation for the meeting—the information had not previously been used. “We do what is best for those kids and we’re not thinking about saving this much money,” one Sanger representative explained. “It’s a nice side benefit, but it’s not driving the question.”

### *Improving Effectiveness Through Monitoring and Strategic Staff Deployment*

The second district whose leaders shared their approach serves over 30,000 students, including 3,300 students who have Individualized Education Programs (IEPs). The district’s strategic plan, developed with substantial community input and with widespread buy-in, drives its decisions and areas of focus. District leaders recognized that the district’s student results closely reflected the areas to which it had dedicated attention: Students achieved growth in English-language arts and mathematics, including improved results for ELs, but special education services and results languished from lack of attention. Those programs were heavily siloed, often escaped notice when district leaders walked schools and classrooms, and featured a stronger orientation to ensuring legal compliance than to

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<sup>6</sup> An unintended side effect of the district’s success in this regard has been that Sanger USD has become a more attractive destination for families seeking better special education services. District leaders now report that 12 percent of its incoming students were identified with an IEP in a previous school district.

providing quality services. Describing the insights that emerged from a process of self-reflection, one district leader recalled, “We had not been paying attention here. We were just happy that we didn’t have another lawsuit.”

Upon closer examination of the special education system, district leaders discovered a situation that allocated staff to schools without adequate communication and monitoring. When teachers reported that their classes were full, the district would send another teacher to the school site. The district sometimes provided an instructional aide to a classroom to support a student with disabilities, for example, but when that student transitioned to a new grade level, the instructional aide would remain. One case featured an instructional aide who remained in a classroom even after the student to whom they were originally assigned had progressed on to college. Teachers enjoyed the extra support and had no incentive to report the change. Another example involved speech and language pathologists, whose caseload often approached the state-mandated cap of 55 students. Developing meaningful and ongoing connections with 55 students could be overwhelming, so in order to keep their workload manageable, they were incentivized to have minimal contact with students. The consequence of this system was a collection of educators deployed across the district who were not adequately positioned to meet the needs of students with disabilities.

Analysis of these data and examples led the district to institute a much stronger monitoring system and a nimbler approach to educator deployment. The district now ties instructional aides to students rather than to classrooms. If a student moves, an instructional aide moves with them—sometimes two to three times per year. The new approach is less stable for instructional aides, district leaders reported, but is better for students. At the same time, the district has also trained staff to be more precise in identifying student needs in IEP meetings to ensure that the supports offered through an IEP are appropriate to each student. The district believes these changes have curtailed much of the waste of resources that existed previously. As with Sanger, this district’s actions have improved efficiency, but that was not the motivation of the work. According to one district leader, “It’s not a cost-savings strategy. We have a responsibility to taxpayers to turn these positions on and off.”

This district has taken additional steps to improve the quality of services that special education staff provide. Whereas instructional aides were previously excluded from professional development opportunities, they are now incorporated into the district’s capacity-building efforts. And throughout the process of reflection and improvement, central office leaders have worked closely with the teachers union to understand problems and craft solutions that improve the district’s special education program. Reflecting on the district’s responsibilities and the process of co-developing expectations with teacher leaders, a district representative asserted, “Our job is to create the conditions for them to do their best work, and the unions need to be in there because they’re doing the work.”

#### *Additional Observations About Special Education*

In small group conversations that followed the district presentations, participants noted that both districts focused their attention on quality services for students. This can help

garner support among parents, who might otherwise be skeptical of efforts they see as saving money by under-identifying and under-serving students. As one individual observed, “If you are a special ed parent, you don’t want them to cut cost at the expense of your child.” An emphasis on quality also represents a shift from the focus that often emerges around the LCAP, where administrators and community members emphasize increasing the services that districts offer rather than focusing on quality—and, in the process, freeing space in the budget.

Small group discussion also called attention to the power of collaboration between general education and special education. Too often, site administrators lack the training, background, or confidence to effectively lead special education efforts. Among teachers, isolation is often common as well, with special education teachers detached from the professional development opportunities and classroom experiences that general education teachers have. Statewide systems like LCFF can further entrench silos by reinforcing the perception that special education does not belong with the resources and plans for general education. In thriving systems, one participant argued, “It doesn’t matter where the service gets provided or who provides [the service], it matters that it gets provided.” Another person observed, “That’s the shift: These are all our kids, and we work together.” This means connections among teachers at school sites as well as among administrators in the central office—for example, between human resources and the business department. Breaking down silos and working together helps districts act in students’ best interests.

### ***Ensuring Fair Employee Benefits While Controlling Costs***

As noted previously, an additional source of financial strain districts face is the rising cost of employee benefits—escalating health care expenses in particular. District leaders from Elk Grove USD and Garden Grove USD joined the group to share strategies they have employed to achieve competitive rates in their own contexts.

#### ***Joint Health Care Coalition in Elk Grove***

Elk Grove USD representatives described the ways in which their Joint Health Care Coalition (JHCC) has enabled the district to negotiate competitive rates with health care providers. The district serves a population of 63,000 students with between 7,000 and 8,000 employees. These employees are represented by seven unions, all of whom participate in the JHCC. District leaders report that sustained attention to building relationships has enabled the group to develop and thrive over time.

The JHCC began in 2013 with a recognition among the district and its labor partners that they shared a responsibility for health care benefits. Their shared goal is to provide the best coverage to district employees at the lowest cost possible. In order to do this, the group explores issues together, and no meetings happen with providers without the presence of the co-chairs—one a central office administrator and one a representative from one of the labor organizations. The group solicits medical plans and renewal rates annually, and poses difficult questions to each provider to best evaluate the options. According to one member of the JHCC, “Through that work, we force them to be competitive, not just with each other but within their own organization.” In the end, the bargaining units

collectively have one vote and the district has one vote to select the health care options for the upcoming year. Since the founding of the JHCC, the vote has always been 2-0.

Elk Grove representatives also described a wellness screening the district offers as part of its health care benefits system. Employees who opt into the screening receive an in-person wellness consultation, complete minor lab work, and complete an online health risk assessment. In return, they receive a wellness rebate equal to 5% of the premium for the district's low-cost health plan. According to district leaders, dozens of employees have had illnesses diagnosed through the screening that would otherwise have been missed. One person recalled, "We have people who will say, 'I'm alive here today because of this program.'"

District leaders also briefly outlined the Elk Grove Benefits Employee Retirement Trust (EGBERT). Retirees began receiving health care coverage through EGBERT in 2000. To fund the program, each employee and the district combine to contribute 2% of the employee's salary plus \$130 per month.<sup>7</sup> Assets in the program have now reached hundreds of millions of dollars, and represent a stable source of support for the district's retired employees.

Members of the Elk Grove USD team who described these efforts explained that they are predicated on trust. As one individual explained, "All parties are extremely transparent. You may not know the answer, but at least you know where they're coming from ... In my prior life, I couldn't trust the other side of the table to have an open conversation because it would be used against you." Although the JHCC and EGBERT enable efficiencies in employee benefits, they have been made possible through ongoing attention to building and maintaining relationships and providing quality options for current and retired personnel.

### *Self-Insurance in Garden Grove*

An individual familiar with the work in Garden Grove USD shared the rationale and history of that district's approach to providing its own health care insurance to its employees. In the late 1970s and early 1980s, the district was looking for ways to strategically bring its expenses in line with its revenues. Recognizing that it did not have options for generating more money, the district explored ways to make the most of the money it had. One of the solutions, which is still in place today, was to insure its own employees for health care costs.

The rationale for the self-insurance approach is straightforward. People need health care, various providers make that care available, and somebody pays for that care. Traditionally, employers work with an insurance company that provides insurance for employees' care for an established amount of money. Those companies examine the health care costs from the previous year and provide a quote to employers for what care will cost in the upcoming year. The presenter observed that this business model has traditionally been highly profitable for insurance companies. The companies set rates that will almost guarantee a

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<sup>7</sup> The employer/employee contribution amounts vary based on the bargaining unit.

profit, and in the unlikely scenario where costs exceed what they charge employers, they make up for those losses with increased rates in the subsequent year. In addition to the costs they assume and the profits they make, insurance companies also cover their own overhead and marketing expenses. Across these various costs, that means employers are paying substantial sums of money that do not directly fund the health care of their employees.

With a greater understanding of the insurance system, Garden Grove USD began running its own insurance fund. The district established the fund through a separate account and ran it as if it was a separate business. It figured out the average health care costs for employees and paid a monthly premium into the insurance account that it would otherwise have paid to an insurance company. The district also set up reserves to cover any catastrophic losses that could take place for employees; today, it also has stop loss insurance for this purpose. The only overhead expenses were those paid to Garden Grove employees who administered the system.

Moving to a system of self-insurance produced substantial savings for Garden Grove USD. The premiums the district paid were lower than they would have been for an outside insurance company because they did not include the overhead and marketing fees the outside provider would have charged. Furthermore, any profit—money paid into the insurance fund that was not needed to cover employee health costs—stayed with the district and generated interest. The district was deliberate in keeping the money siloed from general revenue sources, but the profits provided options. Garden Grove USD was able to reduce premiums in years where the fund performed well. District leaders also knew that in times of crisis, excess reserves could also provide a pool of money to prevent layoffs if necessary. The Garden Grove presenter estimated that in the 35–40 years since the transition to self-insurance, the district has saved between \$150 and \$200 million.

There are several provisions that make the self-insurance option possible. First, a district needs a sufficiently large fund to start that it can cover its claims in the first year or two. Other participants suggested that an approach like selling property might be one of the only ways that a district could generate enough cash for the one-time investment such a system would require. Garden Grove USD also turned to outside networks and expertise as necessary to ensure strong decision making. The district does a regular actuarial study to ensure sufficient reserves within the insurance fund. It also pays a fee to use existing networks of doctors who have agreed to certain costs for particular procedures.

#### *Additional Observations About Employee Benefits*

Small group conversation following the two district presentations highlighted the importance of collaboration in systems like those in Elk Grove and Garden Grove. In the wake of recent teacher strikes, some teachers unions have come to believe that a more adversarial approach produces more gains in salary and benefits. As one participant suggested, however, “Going to war comes at the cost of any type of movement toward relationship. It goes backwards, and it’s very hard to recover. If you’re threatening a strike and you feel like you’ve won, coming back to the table and trusting again takes years.”

## **Exploring District Problems of Practice**

The first day of the meeting closed with three districts sharing a specific problem of practice related to financial constraints. Meeting participants used a consultancy protocol in small groups to provide feedback to the district teams about opportunities to improve their approaches. One district shared its struggles with declining enrollment, which has led to a teaching workforce—and associated salaries and benefits—that is larger than what the district requires. A second district described its struggles with serving preschool students with autism spectrum disorders. Although the district has developed a strong and growing evidence-based program for these students, 3- and 4-year-olds served in the program generate no ADA-based revenue, forcing the district to pay for these services out of its general fund. A third district is wrestling with how to fund new school buildings as it accommodates population growth and associated increasing enrollment. Although each example featured details that were specific to the presenting district, they raised issues that are potentially relevant to districts across the state, and further illustrated the complexity and scope of financial issues in California districts.

## **Securing Adequate Revenues to Support K–12 Education**

Many of the strategies discussed throughout the first day of the meeting had the benefit of increasing spending efficiency, helping districts make the most of limited resources. Participants acknowledged throughout the day, however, that there is simply not enough money available for K–12 public education in California. Day 2 therefore turned to issues of funding adequacy.

### ***The Legacy of Proposition 13***

With Proposition 13, voters approved restrictions on property taxes, dramatically changing the revenue flows into California’s K–12 public education system. Prior to the initiative, California was seventh nationwide in per-pupil spending; it is now 41st. A strong economy and ballot initiative have increased the revenues available, but because those increases came on the heels of a major recession, and because they happened at the same time as an explosion in housing costs has increased the cost of living, California sits at the same place it started: 41st in the country. LCFF receives praise for its improvements to the state’s system of resource allocation, but that policy change governed the distribution of money to schools; it did not provide more money for the system. Despite California’s poor standing in education spending relative to the rest of the country, public understanding does not match reality. Surveys typically find that Californians think the state has the fourth- or fifth-highest spending.

### ***Controversy Around Determining Adequate Funding Levels***

Even with widespread agreement within the education community that existing revenues are insufficient, determining adequacy is a source of controversy. Research by Eric Hanushek has found no correlation between school funding and student achievement. A lawsuit arguing for a California constitutional right to adequate education funding failed. In the design of LCFF and in implementation decisions since, stakeholders have not come to agreement on the degree to which regional cost-of-living adjustments should shape the

flow of resources to districts. And one of the primary methods of determining adequacy in research, the expert judgment method, attracts criticism for lacking an empirical basis.

Nonetheless, a *Getting Down to Facts II* study specifically addressed California's spending adequacy in K–12 education. Researchers found that the adequate cost per pupil would have been \$16,890 in 2016–17, compared to the actual operational spending of \$12,204 per student; this increase would have called for an additional \$25.6 billion in education spending statewide that year. Even with the recommended increase in spending, California would still fall short of higher spending states elsewhere in the country.

### ***Proposals to Address Funding Adequacy***

Several years into LCFF implementation, and in the face of increasing financial pressures, awareness of the adequacy problem has grown somewhat. Meeting participants considered two policy proposals intended to generate more revenue for K–12 public education.

#### **Proposition 13 Split Roll Tax**

The proposed Schools and Communities Funding Act—commonly referred to as the “split roll tax”—changes the parameters of Proposition 13 by allowing the reassessment of certain commercial properties. By taxing these properties based on their actual value, the act would generate an additional \$11 billion in revenue, \$5.3 billion of which would go to K–12 schools through the LCFF's model of resource allocation.

Several potential advantages would come with this change. First, it represents an ongoing revenue stream, making it different from one-time funding or voter-approved taxes that will sunset after a specific amount of time. Second, the money is new, meaning it does not divert resources from other statewide priorities. In addition, because the money is channeled through LCFF, the state would distribute the funds equitably based on student need. Finally, the provisions of the proposal protect homeowners and agricultural land.

Nevertheless, there are concerns about the proposal. Some critics fear that the initiative is the first step on a slippery slope that would result in the ultimate removal of Proposition 13 protections for residential properties as well. In addition, although the proposal would generate \$11 billion in new revenue, only half of new revenues would go to K–12 education. (Proponents respond to this charge by asserting that remaining funds will support other services that students and their families need to thrive.) Finally, public awareness and support need to grow if the initiative is to succeed with voters. Polls from the Public Policy Institute of California and Policy Analysis for California Education find current levels of support for the initiative at only 47% and 55%, respectively—and this is before concerted advertising against the initiative has begun.

#### **Constitutional Amendment to Enable Local Revenue Raising**

A second pathway to improving adequacy could come in the form of a constitutional amendment to enable more localized fundraising. Proposition 13's legacy was not only reduced funding for education, but also a significant power shift from local communities to the state. As the *Getting Down To Facts II* adequacy study and accounts throughout the

meeting demonstrate, that increase in power has not come with an increase in fiscal support. Proposition 98, which set out to guarantee funding to K–12 education by establishing a “constitutional floor” for funding, has instead become a “political ceiling” wherein politicians have virtually ensured that education funding will not exceed the constitutional limit. Federal spending is similarly unlikely to ever make up the gap between existing levels of funding and the money that districts and schools need. By process of elimination, some members of the education community have concluded that local taxation is the only viable pathway for improving the flow of resources.

A proposed constitutional amendment seeks to expand the possibilities for school districts to raise revenues. The California constitution currently defines two categories of local taxes: (1) special taxes designated for a specific purpose, which must pass with a 2/3 vote among local voters, and (2) general taxes that can be imposed with a simple majority. However, special-purpose districts or agencies—including school districts—do not have the authority to implement any general tax beyond a parcel tax. As a result, districts face an often insurmountable barrier in generating revenue, and even when they cross that threshold, the allowed uses of that revenue are narrowly defined. The proposed amendment would lift the current constitutional restrictions and enable school districts to pass general taxes with a simple majority vote among local voters.

As with the split roll tax, the primary advantage of the amendment is the ability to generate new revenue. In a policy context where state funding is insufficient—even in a thriving economy—it opens the door to a new revenue stream.

The primary critique of the constitutional amendment centers on equity. If districts have the ability to generate their own revenue through local taxes, higher-resourced communities may be more likely to fund their schools at higher levels, giving them an advantage over poorer communities—communities that already feature higher percentages of traditionally underserved students. This is the exact scenario that the *Serrano v. Priest* decision in 1971 sought to address.

There are some possible approaches to address these equity issues. One approach could mirror Assembly Bill 65 in 1977 by employing district power equalization. In this model, districts could generate local revenue, after which the state legislature could use state funds to equalize financial support to districts. A second strategy could offer districts a menu of taxes from which they might select. Some communities might have a stronger property tax base, for example, while others stand to benefit more from business or sales taxes. Districts could choose a revenue source most appropriate to their community’s strengths. Third, although the amendment would enable districts to levy taxes, other government entities or collections of entities—perhaps a county or some economic region—could be allowed to do so. The state could allow for a school financing district, for example, where the aggregate tax base per student falls within some threshold around the state average.

A proponent of the constitutional amendment acknowledged that policy alone will never eliminate equity issues, but argued that thoughtful approaches can minimize them. Without



exploring these possibilities, the alternative is that local taxes will remain off the table and public schools in California will never approach adequate levels of funding. As one person observed, “I don’t know where else to go to get the dough.”

## **Changing the Narrative About Education Funding**

Despite widespread awareness of the state’s financial challenges among educators, members of the general public often hear a very different story. Sometimes news about the economy or the positive changes introduced through LCFF give the false perception that schools are flush with cash. More recently, high-profile teacher strikes paint a picture of district administrators and teachers at odds with one another, one of the sides nefariously standing in the way of justice and progress. These misunderstandings not only present a misleading representation of the reality in public schools, but also stand in the way of collaboration around solutions. The meeting concluded by exploring the conflicting narratives about education funding and how best to move toward a common understanding and shared problem solving.

### ***Fostering Community Understanding and Collective Problem Solving***

The preceding conversation about adequacy raised some important challenges regarding the public’s understanding of financial constraints. First, low levels of awareness about adequacy problems make it difficult to rally support around increasing funding levels or finding solutions. Moreover, the disparate and uncoordinated pathways toward securing new resources risk confusing and splintering potential allies. Messaging about LCFF, for example, has focused on increasing transparency and engagement in district financial decisions. At the same time, parcel taxes that have gained momentum in some communities—for example, in Los Angeles, where such a tax represents a means of fulfilling promises of the new teachers’ contract—seek political support around a different financial message, one specifically connected to teachers rather than broader systemic issues. Initiatives like the split roll tax or the constitutional amendment enter an arena where community members are already engaged in issues related to district budgets, but from different entry points. If the education community wishes to leverage the support of a wide variety of stakeholders, it may be important to coordinate these messages so that community members understand how they fit together.

A panel of community leaders joined the group to share some additional insights about the community’s role in navigating fiscal constraints. These leaders first observed that concern about education brings individuals and organizations together; it is consistently one of the highest priorities for a community. And families may not know the nuts and bolts of district financial circumstances, but they know that schools are underfunded and under-resourced.

Panelists also asserted that community members appreciate strong leadership from local education systems. One of the most important behaviors a superintendent can exhibit is to listen. According to one community leader, “Everything rises and falls on leadership. Having your leader just ... listen and be present means a lot. It builds good will.” Part of this role means explaining district decisions and the rationale behind them. People may

disagree, but the trust and transparency demonstrated through an honest explanation can go a long way in building relationships and support.

When district leaders do make efforts to communicate, the ways in which they do so make a difference in the quality of interactions and the perceptions that community members develop. District leaders need to be responsive to the community by meeting at accessible times and addressing language barriers that might otherwise prevent interaction and understanding. One panelist also advised that district leaders should understand that opportunities for input will generate responses about the range of pain points that communities experience. Some of these will fall within the jurisdiction of the district. Others—for example, concerns about parks, teen pregnancy, infrastructure, or violence—may not. Regardless, district leaders do a service to their community by listening.

Panelists also addressed the role that conflict plays between districts and community leaders. One individual explained that the efforts to disrupt patterns that they see as ineffective are often intentional: “You can’t have impact without a collision ... I don’t know that we want to avoid the conflict. We want to have it be productive and really get to what the issue is.” Translating tension into productive dialogue is an important part of the process. One panelist gave an example of business leaders meeting with union leaders in one district to better understand one another’s interests and priorities in the search for common ground.

Despite conflict, the community leaders on the panel outlined steps that districts can take to build understanding and buy-in. Transparency is critical—not only sharing information openly but doing so in a way that community members can understand. “If we really are going to be transparent, we have to have useful ways of communicating to people,” one panelist shared. “Don’t overwhelm us ... Give us the broad strokes so we can understand.” Another panelist added, “You can show me everything you have, but if I don’t understand, it’s not transparency.” One individual gave an example of district leaders taking parents and other community members on instructional rounds through schools. In doing so, they were not merely providing high-level summaries of the district’s work, but inviting stakeholders to understand it firsthand.

The panel conversation further emphasized the opportunities for district leaders to see community members not only as audiences for communication, but as assets for improvement. Parents and others can raise issues that district leaders might not be aware of or might not be addressing—for example, matters of implicit bias or the dynamics of a particular neighborhood. Business leaders can also be an ally, especially in navigating financial troubles. As one panelist observed, “What helps is that businesses understand what budgets look like.” Furthermore, local businesses rely on a pipeline of qualified employees to come out of the community’s education system and are therefore invested in the quality of that pipeline. One individual gave an example of the business community in one district rallying behind a voter-approved sales tax increase. “You saw the business community saying yes,” she explained: “We want to do this because we want our entire region to be doing well.”

## ***Navigating Labor–Management Relationships***

One of the dominant narratives related to fiscal issues in California schools centers on the relationship between districts and teachers. Strikes in Los Angeles and Oakland and unrest elsewhere have made teacher wages and working conditions high-profile issues, but often in a way that pits districts and unions as enemies working at cross purposes. Meeting participants considered the narrative around labor–management issues and ways in which it relates to the broader challenge of addressing financial pressures in education.

### ***Reflections From a Productive Labor–Management Relationship***

To help spark a discussion about how districts and teachers might work together in a more cooperative way, a district leader and a union leader from San Juan USD shared reflections on their highly collaborative relationship. They first noted that although the district has earned attention for its strong partnership, the working relationship today grew out of a strike not unlike those in Los Angeles and Oakland. In the aftermath of that strike, however, district and union leaders were willing to take a different approach and work together in new ways.

First and foremost, both representatives from San Juan USD emphasized that working together enables a focus on the needs of students. “Our firm belief is that we all care about kids, and that is always our grounding focus,” one explained, “which means we both care together about our employees and our workers.” In other contexts, fights among adults can act as a distraction from the core work of educators in the district. According to one person, “We know that unless the relationships are functional at school sites, it’s unlikely that adults are talking about student learning.” Because leaders in San Juan have prioritized their relationships with one another, they have created space for shared attention on students.

The San Juan team also argued that policies are better as the result of their work together. The district’s teacher evaluation system is the product of both sides working together to develop an approach focused on building capacity; it still enjoys widespread support from teachers and administrators alike. One San Juan representative also gave an example of how working together has helped navigate fiscal challenges. The district’s early childhood programs were dramatically over budget, but rather than cut those programs, the union teamed with the district to co-create a redesign model that included reducing positions to bring the system back into the black. “We were able to come up with a better solution that did not cut services to students,” she recalled.

As a result of their commitment to working together and creating shared solutions, one person reflected, “We spend less time fighting and more time creating. We can be more innovative, more responsive. We can try new things together, and then we can also fail together.” Furthermore, co-creation helps to facilitate buy-in among teachers. Rather than react to a top-down mandate, teachers are often more willing to embrace new ideas when they and their colleagues have contributed to their development.

The two San Juan leaders identified some of the norms that characterize their relationship: “One of the most important agreements we have with each other,” one person asserted, “is we don’t weaponize who cares most about kids.” The district and union co-create ideas for improvement and co-lead their development and implementation. Although they agree on many things, the union still advocates on behalf of its members and challenges district perspectives and actions as needed. However, both sides have committed to a “no surprises” approach. Even in the face of tension, both sides let the other know the political pressures they are facing, the member interests they need to represent, and the ways in which they can work together to address them.

### Obstacles to Collaboration

Despite the promise that healthier labor-management relationships offer, the political environment makes it more difficult to initiate and maintain better collaborative interactions. Again, as one participant observed, “This political climate is one where people want to resist. People want to stand up and they want to fight.” That pressure on union leaders builds when teachers see increased wages and improved working conditions emerge from strikes in other contexts. When union members see those developments, one person explained: “They’ll vote us out if we fail to advocate for our members—including staying competitive with surrounding districts.” Thus, even when union leaders have experienced the benefits of working together with their district partners, pressures mount to lead in a more adversarial way.

Underlying this political dynamic, observations from meeting participants suggested that the outlook for teachers unions has shifted in the aftermath of the U.S. Supreme Court’s 2018 ruling in *Janus v. American Federation of State, County, and Municipal Employees*. By disallowing the mandatory collection of union fees from members, the decision raised questions about the ability of teachers unions to maintain their membership and political influence. The result, as one participant argued, has been a rallying of the troops to protect the future of teachers unions: “Unions are under attack, and under attack, you’ll get [a response of] fight or flight. And unions aren’t going to run. They’re going to fight.”

Some participants in the meeting argued that the union leaders have brilliantly crafted a narrative to support their cause in the Los Angeles and Oakland work stoppages and in negotiations elsewhere. In calling out the low wages that teachers earn—and the implications of those wages on teachers’ ability to live where they work and even remain in the profession—unions have effectively won the support of the general public to provide for teachers in their communities. Combining a message of support for teachers with one of resistance to institutions infringing on their rights has been persuasive.

### Diversions From Shared Struggles and Goals

Despite the successes that teachers unions have achieved in some pockets of the state, meeting participants also observed that the narrative is deeply adversarial and diverts attention from the conversation about adequate state funding and from finding solutions where financial pressures exist. The commitment to serving children is one that district leaders and union leaders share, as is the recognition that schools need more resources

than the state currently provides. Instead of working as allies, however, district and union leaders have too often played the role of adversaries by calling into question one another's motives and actions. As one participant reflected in an exasperated tone, "This is madness that we're splitting each other apart." Another individual offered a similar perspective: "The battles between unions and districts are in the wrong place. Let's think about not how the voices can be antagonistic, but instead combine in advocacy in a powerful way."

### *Opportunities to Build a Healthier Relationship*

Participants briefly addressed opportunities to build the kind of labor-management relationship that has grown in San Juan USD. One meeting participant advocated for district and union leaders starting in a place where they can get traction, whatever that might be. The ideal relationship will take years of careful attention to develop; it will not begin overnight. As one meeting participant observed, "While shooting for the gold standard, there's a lot of silver to pick up along the way." Another meeting participant suggested that if statewide organizations representing administrators and teachers can build collaboration into their approach to leadership, it can model partnership and co-creation for local leaders around the state. Finally, a meeting participant referenced the Collaborative's report, *From Combat to Collaboration: The Labor-Management Partnership in San José Unified School District*,<sup>8</sup> which describes the evolution of a similarly productive relationship in San José USD and calls out some lessons learned that might inform district or union leaders in other contexts.

### ***Influencing State Policy Discourse***

The meeting concluded with a discussion about the narrative at the state level and opportunities to inform the policy discourse.

### *Challenges With the State Policy Narrative*

Several meeting participants noted that legislators today have little appetite to get involved in education. Legislators historically showed their leadership in education by sponsoring categorical spending programs that supported particular initiatives or groups of students. Today, there is no extra money available and no opportunity for this kind of political win, because Proposition 98 effectively caps state money going to education and LCFF freezes out the categorical programs. Moreover, the highest profile issues related to education are highly contentious: Toxic rhetoric about charters, districts, and teachers unions scares people away from taking a stand on many educational issues.

At the same time, given its visibility, the conflict so prevalent in education dialogue today runs the risk of eroding public trust in the system. When media attention focuses on dissent, it diverts attention from issues of adequacy, teaching, and learning. Furthermore, it creates doubt among policymakers and the general public that education professionals actually know what they are doing. When improvements in student results

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<sup>8</sup> See

<https://cacollaborative.org/publication/From-Combat-to-Collaboration-The-Labor-Management-Partnership-in-San-Jose-Unified-School-District>

do not materialize and news about education features adults fighting with one another, it becomes difficult to rally support for a system that cannot seem to help itself.

The result of recent developments is that two storylines dominate the narrative about K–12 public education. The first is that the state has provided a windfall of money to schools, but schools have produced no notable results with that money, and yet they still return to Sacramento to ask for more. The second is that members of the education community continue to fight with one another, so any solution legislators pursue means making enemies with a sizeable and vocal component of that community.

### *Opportunities to Shift the Narrative*

Despite these challenges, meeting participants identified some opportunities to shift the narrative. The first is to put youth at the center and frame conversations about education in this way: What does it take for the state to do well by its youth? If policymakers and members of the education community can focus their attention on this question, they can elevate their common goals and get away from the distractions of adult priorities and territoriality that so often become caustic.

Participants also argued that the governor plays a huge role in setting priorities and leading the way in California. In recognition of this observation, one person suggested, “We need to figure out how to galvanize leadership to help this along.” Throughout his campaign and so far in his term, Governor Newsom has emphasized his support for preschool as an area of focus in public education. Finding ways to marry an education agenda with that priority may be important.

Finally, participants considered the potential value of a media campaign to help improve public understanding and set an agenda for the state to move forward. In pursuit of this idea, some suggested outreach to a group of funders that could support a strategic multimedia communications effort.

### **Next Steps for the Collaborative**

The Collaborative will convene again in June 2019 to examine the data that districts need for improvement and the role that an expanded state data system might play to incorporate or support those needs. In the meantime, the Collaborative staff will continue to pursue publications and activities that share key lessons from our core meetings with the broader field of California educators. As always, resources from this and previous meetings, updates regarding Collaborative members, and information concerning upcoming events are available on our website at [www.cacollaborative.org](http://www.cacollaborative.org).