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Do Nonschool Resources Substitute for School Resources? A Review of the Evidence

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IREPP

STANFORD UNIVERSITY

Getting Down to Facts

A research project designed to provide California's policymakers and other education stakeholders with comprehensive information about the state's school finance and governance systems, and lay the groundwork for a conversation about needed reforms. The project was made possible by grants from the Bill & Melinda Gates Foundation, the William and Flora Hewlett Foundation, the James Irvine Foundation, and the Stuart Foundation.

This summary was prepared by IREPP.

For the full text of the author's research report and the other studies in this project, see: **www.irepp.net**

For background on California's school finance system, see: **www.californiaschoolfinance.org**

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California's school finance system, as shaped by Proposition 13 and the *Serrano v. Priest* court decision, places constraints on local and state governments' ability to raise revenue for education. This paper asks:

1. What does existing research reveal about the impact of school finance reforms on spending?
2. When fiscal constraints are imposed on education spending, does spending on nonschool services for children increase (e.g., spending on after-school programs, parks and recreation, or public libraries)? And is there an increase in the use of privately provided education services?

Summary of Key Findings

California limits the ability of state and local governments to raise revenues for schools, first through the court-ordered school finance equalization mandate known as the *Serrano* decision, and then by voters' approval of Proposition 13, a tax limitation measure.

Existing research indicates that school finance reforms have a minimal effect on public educational spending from nonschool sources

Existing research on court-mandated school finance reforms similar to California's *Serrano* decision indicate that such reforms do not lead to increases in spending that might substitute for education spending. This is both because finance reforms of this type generally do not reduce education spending substantially and because individuals' responses to the financial constraints tend to be small.

Similarly, the extent of public sector substitution in the aftermath of a tax or expenditure limit such as Proposition 13 is likely to be limited because after most such limits, state aid increases to compensate for lost local tax revenue, as was the case in California.

Effects of state fiscal constraints can vary by locality

Proposition 13–style limits centralize revenue raising, increase local use of nontax revenues, and reduce the amount of revenue raised through local broad-based taxes. The effect of tax limits will vary by location. More constrained localities might substitute noneducation spending (such as funding for libraries and recreational programs) for education spending by generating nontax revenue, particularly if that is easier than generating such revenue for education spending. Examples of nontax revenue include user fees and private contributions.

In California, other spending areas are constrained

A review of the fiscal situation in California indicates, however, that local governments have limited scope to increase their spending in response to declining school district spending. A combination of legislation and voter initiatives has resulted in both a reallocation of property tax revenues from cities and counties to school districts and the

Study Methods

This study reviews analyses done since 1990 regarding the impact of school finance reforms on spending both nationally and in California.

It uses a two-pronged approach to address questions related to resource substitution:

- County-level data from the Census of Governments, 1972 to 2002, are used to determine if growth in nonschool spending is more rapid in states where education spending constraints are imposed.
- The 2001 Before- and After-School Programs and Activities Survey is used to document cross-state differences in participation in after-school activities.

earmarking of specific portions of state revenues for school districts. The evidence indicates that the evolving fiscal structure of state and local governments in California has constrained the ability of cities and counties to increase spending in areas that might substitute for declines in education spending, such as recreation programs and libraries.

Private responses tend to be small

Regarding the impact of spending constraints on private school attendance and on private contributions to public schools, the author concludes that, on average, private responses to constraints tend to be small. To illustrate the point, the author cites prior research findings that private school attendance in unified school districts in California only increased from 9.5% to 13.3% between 1970 and 1980. Moreover, while a substantial portion of that increase appears to be a response to fiscal constraints on public schools, the percentage of students in private schools in California has declined since 1980. The study also cites data indicating that while private contributions are a substantial portion of district revenues in a small number of school districts, the total contributions have little impact on the overall distribution of education expenditures in the state.

The author's analysis of county-level data is consistent with prior research on education spending substitution

The author examines county-level data from California and other states, comparing localities subject to fiscal constraints with those without constraints. He finds that public spending on services that can substitute for education has not increased, on average, in localities subject to constraints. In addition, participation in after-school activities that can substitute for schooling services is no different.

Although there is no evidence of substitution in the average locality, the analysis indicates that there may be some substitution of noneducation expenditures for education expenditures in counties where local school districts are likely to be most affected by fiscal constraints. For example, in states where legislatures have passed school finance reforms, parks expenditures increased slightly in counties with higher current education expenditures in 1982. Similarly, in states where courts have ordered school finance reforms, library expenditures increased slightly in counties with higher current education expenditures in 1982.

Author's Conclusions

The study concludes that local governments in California generally do not compensate for state cuts in education spending by substantially increasing spending on other local public services that might substitute for education (e.g., spending on parks and libraries). The absence of significant substitution in California is consistent with two general observations in the relevant literature. First, spending on elementary and secondary education tends to be less affected by fiscal constraints than is spending in other categories. As a result, the scope for substitution of public noneducation spending is limited. Second, while private responses to fiscal constraints exist—and are large in areas where the constraints are particularly binding—the mean (or average) response tends to be small.

Thomas Downes is an associate professor of economics at Tufts University. His research interests include the roles of the public and private sectors in the provision of education. His current research includes studying the implications of school finance reforms and property tax limitations for student outcomes and the public treasury. *This study was completed in October 2006.*