



Pepperdine University’s Analysis of California K-12 Expenditures Should Be Used With Caution

On a per student basis, the financial resources available to California’s public schools lag those available in the rest of the US by the largest margin in 40 years.¹ Within California, spending dropped by approximately \$700 per student in just a two-year period, between 2006-07 and 2008-09 – a reduction of more than \$4.6 billion (8.1 percent).² Recent budgets have depressed spending further, pushing class sizes larger and shortening the school year in many parts of the state. Despite these facts, researchers at Pepperdine University, in a study funded by the California Chamber of Commerce Educational Foundation, imply that California’s schools receive sufficient resources. This study, however, is based on a number of questionable assumptions, uses inappropriate measures of the cost of educating students, and uses a definition of spending “in the classroom” that excludes expenditures that research shows are critical to students’ success. This *School Finance Facts* examines the assumptions underlying the Pepperdine analysis, documents a major flaw in the study’s methodology, and raises additional concerns with the researchers’ approach. Taken together, the questions and concerns outlined below suggest that the study does not reflect the true cost of providing a quality education and that the report’s findings should be used only with extreme caution in policy debates over school finance.

Pepperdine’s Spending Benchmark Does Not Reflect Schools’ Costs

Educating California’s students costs more today than it did in 2003-04. Like households and businesses, schools’ costs increase as prices rise for everything from books to electricity. The Pepperdine study implies, however, that California schools received adequate funding increases between 2003-04 and 2008-09. A closer look suggests that the study uses an inappropriate benchmark to assess changes in school spending.

The Pepperdine study inappropriately compares changes in K-12 education spending to changes in California per capita personal income (PCPI). The study finds that California school spending increased by more than PCPI between 2003-04 and 2008-09.³ However, changes in PCPI do not accurately reflect changes in the prices schools must pay for major “inputs,” such as

health benefits.⁴ PCPI reflects the size of the state’s economy, as measured by the total income of Californians, not the actual costs incurred by California’s schools. Between 2003-04 and 2008-09, California’s PCPI rose by 18.0 percent. In contrast, spending on teachers’ salaries, which accounts for the largest share of schools’ costs, increased by 16.3 percent while the cost of health benefits increased by 31.0 percent – a rate that far exceeded the change in PCPI and the overall rate of inflation in California’s economy as a whole.⁵

Health care costs are particularly important not only because they account for the largest share of schools’ benefit costs statewide, but also because they increased significantly between 2003-04 and 2008-09. The Pepperdine study does not take into account that the substantial increases in health care costs during the past several years comprise the majority of the increase

in schools’ benefit expenses. School spending on health benefits increased from \$3.6 billion to \$4.7 billion between 2003-04 and 2008-09 – more than half (57.7 percent) of the total increase in benefit payments to school staff statewide.

Pepperdine’s Calculations Use Time Periods That Do Not Match Budget or Fiscal Years

The Pepperdine study calculates economic growth using calendar year changes in PCPI. However, state and school budgets in California are based on fiscal years that run from July to June. The use of calendar years significantly understates the rate of economic growth in California. Had the study calculated the change in PCPI based on fiscal years 2003-04 to 2008-09, PCPI growth would have been 18.0 percent – significantly higher than the study’s calculation of 14.7 percent based on calendar years.⁶

Pepperdine’s Calculation of “Direct Classroom Expenditures” Excludes Spending Key to Student Success

The Pepperdine study relies on a very restrictive definition of classroom spending that seriously underestimates the cost of providing students a quality education. This definition implies that moneys used outside the classroom are dollars ineffectively spent. The Pepperdine study’s calculation of “direct classroom expenditures” excludes the salaries and benefits paid to administrators and certificated pupil support staff, such as school site principals, vice principals, librarians, and counselors. The study’s definition of spending “in the classroom” also excludes the salaries and benefits paid to classified support staff, such as instructional media and library personnel.⁷

Researchers find that strong school site management and student support are critical to student success. For example, studies released as part of the foundation-supported “Getting Down to Facts” series, commissioned by the Governor’s Committee on Education Excellence and the Superintendent of Public Instruction, found that:

- **Principals are key to student success.** According to one study, principals are “central to the task of building schools that promote powerful teaching and learning for all students.”⁸ The same study noted “several lines of research have identified the critical role of principals in recruiting, developing, and retaining teachers, in creating a learning culture within the school, and in supporting improvements in student learning.”⁹
- **Schools with more support staff per student “beat the odds.”** Elementary schools with a higher proportion of school staff in administrative positions and middle and high schools with a larger percentage of staff in pupil support positions consistently performed “at a higher level than the one predicted by their demographics.”¹⁰

By excluding the salaries and benefits paid to principals and student support staff from its calculation of “direct classroom expenditures,” the Pepperdine study significantly underestimates the level of school spending necessary to support student achievement.

Pepperdine’s Analysis Disregards California’s Low Number of School Staff Per Student

The Pepperdine study suggests that California schools could spend less on administrators and pupil support staff and more on teachers’ salaries. Yet, California consistently ranks among the lowest in the nation with respect to the number of school staff per student. In 2007-08, California ranked 46th in the nation with respect to the number of students per administrator, 49th in the nation with respect to the number of students per counselor, and 50th in the nation with respect to the number of students per librarian.¹¹ As noted above, research documents the importance of support personnel, such as librarians and counselors, to student achievement. California already lags far behind schools in other states with respect to support for this key component of a quality education, yet the Pepperdine study implies that students would be better off with even fewer resources allocated to support personnel.

Pepperdine’s Calculation of “Direct Classroom Expenditures” Uses a Flawed Estimate of Teachers’ Benefits

Policymakers often speak of directing education spending to the classroom, but the definition of “classroom” remains open to debate. The Pepperdine study uses its own definition of spending “in the classroom” to imply that schools could have employed more teachers by limiting salary and benefit increases for administrators and pupil support staff. However, the study appears to underestimate the amount schools spent “in the classroom” by assuming that teachers’ share of total certificated staff benefits is proportional to teachers’ share of total salaries paid to

certificated staff, which includes some administrators.¹² In other words, the study assumes that a teacher earning \$50,000 per year would receive half the benefits of an administrator earning \$100,000 per year. But in fact, benefits are not directly proportional to salary. Health care costs, the largest share of schools’ total benefit costs, are not based on an employee’s salary, but on other factors such as an employee’s age and number of dependents. Contrary to the Pepperdine study’s assumption, health care costs account for a larger share of an employee’s salary the less an employee earns. For example, a monthly health premium of \$500 accounts for 20 percent of an annual salary of \$30,000, but only 6 percent of an annual salary of \$100,000. Therefore, schools likely spent more on teachers’ benefits and spending “in the classroom” than the Pepperdine study estimates. The study’s lack of precision with respect to calculating teacher benefit costs is particularly important since, as noted above, these costs have increased at a rate that far exceeds inflation as a whole.

Conclusion

California’s budget problems have focused attention on the level of support for K-12 education as well as on how schools spend their dollars. Recent cuts to school funding have pushed per pupil spending to its lowest level in nearly a decade. The Pepperdine study implies that schools received adequate funding increases between 2003-04 and 2008-09. However, the study compares changes in school spending to a benchmark that does not accurately reflect schools’ expenses. Moreover, the study fails to take into account all of the resources schools need to provide a quality education, such as strong school site management and student support staff.

The concerns raised in this *School Finance Facts* suggest that the Pepperdine study’s analysis does not reflect the true cost of educating the state’s public school students. Pepperdine’s study should therefore be used with extreme caution in debates about the appropriate level of state funding for schools and about how school dollars are spent.

ENDNOTES

¹ California K-12 school spending measured per pupil or as a share of the state's economy is at its lowest level in 40 years compared to the rest of the US. California Budget Project, *Race to the Bottom? California's Support for Schools Lags the Nation* (June 2010), p. 2. Unless otherwise noted, school spending refers to current expenditures, which excludes capital spending and payment on bond debt.

² CBP analysis of National Education Association data.

³ According to the Pepperdine analysis, total K-12 public school district expenditures in California increased by 21.9 percent between 2003-04 and 2008-09, while California per capita personal income (PCPI) increased by 14.7 percent. As explained below, the Pepperdine study calculates the change in California's PCPI based on calendar years 2004 and 2008, but reports the calculation as a change between fiscal years 2003-04 and 2008-09.

⁴ Although there is some debate as to how to best calculate year-to-year changes in schools' expenses, California uses the state and local price deflator for gross domestic product (GDPSL) to calculate cost-of-living adjustments for K-12 schools, not PCPI. The GDPSL reflects changes in costs incurred by state and local governments, including employee salaries and benefits. As a result, GDPSL more accurately represents schools' costs than PCPI given that salaries and benefits consume such a large share of school spending.

⁵ CBP analysis of Bureau of Economic Analysis and California Department of Education data. The cost of health benefits reflects expenditures for certificated staff only and excludes employee contributions. The California Department of Education (CDE) defines certificated staff as "positions that require a credential or permit issued by the Commission on Teacher Credentialing." Department of Finance data show that California's Consumer Price Index increased by 16.7 percent between 2003-04 and 2008-09.

⁶ CBP analysis of Bureau of Economic Analysis and Department of Finance data.

⁷ The CDE defines salaries for certificated personnel as "salaries for positions that require a credential or permit issued by the Commission on Teacher Credentialing" and classified salaries as "salaries for positions that do not require a credential or permit issued by the Commission on Teacher Credentialing."

⁸ Linda Darling Hammond and Stelios Orphanos, *Leadership Development in California* (Institute for Research on Education Policy and Practice: 2007), p.1, downloaded from [http://irepp.stanford.edu/documents/GDF/STUDIES/12-Darling-Hammond/12-Darling-Hammond\(3-07\).pdf](http://irepp.stanford.edu/documents/GDF/STUDIES/12-Darling-Hammond/12-Darling-Hammond(3-07).pdf) on August 17, 2010.

⁹ Linda Darling Hammond and Stelios Orphanos, *Leadership Development in California* (Institute for Research on Education Policy and Practice: 2007), p.1, downloaded from [http://irepp.stanford.edu/documents/GDF/STUDIES/12-Darling-Hammond/12-Darling-Hammond\(3-07\).pdf](http://irepp.stanford.edu/documents/GDF/STUDIES/12-Darling-Hammond/12-Darling-Hammond(3-07).pdf) on August 17, 2010.

¹⁰ María Pérez, et al., *Successful California Schools in the Context of Educational Adequacy* (Institute for Research on Education Policy and Practice: 2007), pp. iii and 46, downloaded from [http://irepp.stanford.edu/documents/GDF/STUDIES/17-AIR-Successful-Schools/17-Successful-California-Schools\(3-07\).pdf](http://irepp.stanford.edu/documents/GDF/STUDIES/17-AIR-Successful-Schools/17-Successful-California-Schools(3-07).pdf) on August 18, 2010.

¹¹ See California Budget Project, *Race to the Bottom: California's Support for Schools Lags the Nation* (June 2010), pp. 1-2.

¹² The state does not require schools to account separately for spending on benefits for particular certificated staff positions, such as teachers and administrators, nor for particular classified staff positions.

Jonathan Kaplan prepared this School Finance Facts. Support for this School Finance Facts is provided by a grant from the William and Flora Hewlett Foundation. The California Budget Project (CBP) was founded in 1994 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The CBP engages in independent fiscal and policy analysis and public education with the goal of improving public policies affecting the economic and social well-being of low- and middle-income Californians. Please visit the CBP's website at www.cbp.org.