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Trends in Education Finance for California's Future

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This issue brief series is part of the California 100 initiative. The purpose of this brief is to foster conversations about the future of education in California. You may read the full report here.

Overview

This issue brief reviews major trends that may influence education finance in the years and decades to come. We narrow in on three salient trends: 1) changes in student enrollment trends; 2) rapid advances in new technology to aid student learning, alongside COVID-19's push to move many school and college classrooms online; and 3) California's growing economic inequality.

Enrollment declines

Since 2013-14, student attendance in K-12 schools has been declining every year in California at a rate of about 1.5 percent, and is expected to drop by another 7 percent by 2027-28 (Warren & LaFortune, 2020). Enrollment declines are also likely in ECE programs in the coming years due to slowing population growth (Shelton et al., 2019). A recent report from the Public Policy Institute of California attributes the K-12 enrollment drop to fewer births, an out-migration of school-aged children to other states, and competition in some districts from charter schools (Warren & LaFortune, 2020). Over the last several years, regions, such as Los Angeles, Orange, and Santa Clara Counties experienced larger declines than the statewide average. In the coming decade, Los Angeles, Marin, Santa Clara, Santa Cruz, Sonoma and Ventura counties are expected to decline by more than 15 percent, with enrollment expected to shrink across half of all California counties.

In higher education, community college enrollment has also been on the decline, whereas enrollment at UCs and CSUs has been on the rise. Total freshman enrollees in the UC system more than doubled from 1994 to 2020, with the total student headcount of the UC system growing from about 172,000 in 2008 to over 222,000 in 2018 (UC Regents, 2019).[1] CSU enrollment grew in recent decades as well, with a 32% increase from 2000 to 2020. In recent decades CCC has seen a decline in its total headcount of students: 2.6 million students enrolled in 2000-01 versus 2.3 million in the 2019-20 term; however, the number of students in full-time equivalents (FTE) grew by 14% over the same period. At the same time, high school graduation rates remain high and more students are graduating having completed college preparation courses, indicating that student enrollment in higher education is likely to continue to rise.

[1] The total number of in-state resident students at UC's grew by 12 percent over the same time period: from 163,773 in 2008 to 182,733 in 2018; the total number of nonresident students at UC's (either domestic or international) grew by 342%, from 9,000 in 2008 to nearly 40,000 in 2018 (UC Regents, 2019).

With the onset of the COVID-19 pandemic, declining enrollment trends in K-12 and the CCC system have accelerated. On average, statewide K-12 enrollment declined by 3 percent between 2019-20 and 2020-21, but the largest enrollment drops were among low-income students in kindergarten and first grade, which saw declines of up to 13 percent, and preschool enrollment was down by 6,000 children. Enrollment drops in K-12 were also regional, with enrollment in parts of the Sierras declining by over eight percent. Changes in higher education enrollment were present during the pandemic as well--enrollment across California's community colleges decreased overall, while enrollment held steady in the UC system and increased slightly in the CSU system.

Implications for school finance

All enrollment changes have potential to impact ECE, K-12, and higher education finances since funding is tied to enrollment in all three systems. ECE providers, schools, and the state's community colleges facing declining enrollment will have to make due with fewer state dollars and may have to make budgetary cuts or find ways to backfill their budgets if enrollment continues to decline. A recent study from the Public Policy Institute of California found that declining enrollments in K-12, in particular, have a cost to the state as well as districts. California is unique in that it provides a declining enrollment adjustment to school districts for the first year following an enrollment decrease; in the 2018-19 budget, the state paid nearly $1 billion to fund such enrollment adjustments (Warren & LaFortune, 2020).

While more high school students are completing course requirements necessary for college and graduating from high school at higher rates, more students are enrolling in the state's UC and CSU systems, which is promising for the number of students who are on track to receive degrees. However, there may be new pressures for the state budget, as more student financial aid will need to be allocated to students, and the state may need to find ways to open more higher education seats to account for more students planning to enroll in one of the three public segments (Cook & Mehlotra, 2020). This will put continual cost pressures on higher education institutions as they struggle to meet the needs of a growing student population—including their basic needs, health care, and mental health—while also ensuring the quality of their education.

School finance and technology

Online learning is an appealing strategy for education institutions to expand access to more students across different geographic areas potentially at a lower cost. This is especially the case for higher education, where online courses could also provide access at a lower cost to students (Deming, Goldin, Katz, & Yuchtman, 2015; Zhang, Zhao, Zhou, & Nunamaker, 2004). Advocates of online learning posit that traditional teaching methods across K-12 and higher education are outdated, are too expensive because they require intensive human resources, and fail to take advantage of advances in human cognition and related instructional technologies (Hess & Meeks, 2012). Research on technology use in K-12 has confirmed that schools save money with online courses; this is particularly true for schools that are completely

online or virtual since they reduce the need for brick-and-mortar facilities and operations and other in-person student costs such as transportation and food services (Miron & Urschel, 2010).

However, cost challenges may arise when looking at economies of scale. For example, when California schools and colleges moved online during the COVID-19 pandemic, there were large upfront costs to doing so. The state initially established a $30 million partnership with the California Public Utilities Commission to cover costs for education technology at the onset of the pandemic (Legislative Analyst's Office, 2020). The 2020-21 budget allocated $5.3 billion in state and federal funds to help school districts purchase computers, set up hotspots, and address other learning needs associated with the switch to distance learning. In some cases, private philanthropists stepped up to financially contribute to low-income K-12 districts to offset technology deficits during the height of the pandemic. In the 2021-22 budget cycle, the state passed AB/SB 156 to invest $6 billion to expand broadband for residents across the state.

Even with these efforts, California likely has a long way to go to provide basic infrastructure for all students to access basic infrastructure and online resources and important equity concerns in how students access online courses and other technology remain. The COVID-19 pandemic highlighted major inequalities--especially among low-income students and students of color--in access to the internet and devices to participate in online learning in both K-12 and higher education. Other inequalities exist in who accesses state broadband infrastructure, with barriers to adoption such as affordability, digital literacy, and access to devices that vary by race, class, age, gender, disability, and education-level.

In addition to concerns about the equitable access of technology are concerns that not all students are equally successful with online learning modalities. In fact, higher education research suggests that academically underprepared students will be more successful in both the short-term and long-term when they enroll in face-to-face courses rather than online courses (Bettinger & Loeb, 2017). This is especially the case for low-income, Black and Hispanic students in higher education enrolled in non-selective institutional settings such as community colleges (Hart, Friedmann, & Hill, 2018; Jaggars & Xu, 2010; Johnson & Cuellar Mejia, 2014; Xu & Jaggars, 2014). On the other hand, online courses have been found to have some success for nontraditional students who work, have children, or have other outside commitments that mean they cannot as easily show up for in-person learning; online courses provide these students with a convenient alternative to access programs for degree completion (Johnson, Cuellar Mejia, & Cook, 2015). Whether or not online courses help or hurt student performance, there is also the fact that online learning platforms are contracted out to third-party, profit-seeking vendors, creating what is now a multi-billion dollar industry and raising the question of whether this is how public tax dollars should be spent.

The same concern holds for learning inequalities in K-12 or early childhood education, with one researcher in the field claiming that "online courses are hurting the students that need the most help." Moreover, there are other concerns that younger students will continue to need in-person learning for the social and emotional aspects of schooling (Vaillancourt et al., 2022), and parents will prefer in-person schooling for the benefits of child care during the work day. Overall, research suggests that funding human resources and brick-and-mortar classrooms

will remain an important variable in in education finance for the foreseeable future (Baum & McPherson, 2019; Morgenthaler & Barrett, 2021).

Addressing poverty and inequality in California

California's education system and the students it serves are embedded within a broader political, economic, and historical context. Students represent a deeper set of social and economic inequalities in California--despite being one of the wealthiest states in the county, California is also one of the most unequal, with more than a third of people living in or near poverty. In fact, income inequality is worse today in California than it has ever been, with a growing gap between the wealthiest 10 percent of earners and the bottom 90 percent. It is no secret that wages have stagnated for decades, housing costs have soared, and child care costs have spiraled upward putting enormous pressures on everyday Californians. Other inequalities in wealth accumulation and political power have been in motion for years, furthering the state's economic divide (Lewis & Burd-Sharps, 2014). Together, this web of factors contribute to the inequalities students bring with them to school that result in complex learning needs.

International researchers have found that student education outcomes improve when many features of the social safety net are sufficiently funded, since this can help reduce the overall effect of poverty and reduce the level of inequality students bring with them to school. For example, in the book, *Too Many Children Left Behind: The U.S. Achievement Gap in Comparative Perspective*, the authors compare how the design of welfare state programs in the United States, the United Kingdom, Australia, and Canada influence student achievement by income-level (Bradbury, Corak, Waldfogel, & Washbrook, 2015). The researchers show that the U.S. faces a much starker achievement gap by students' socioeconomic background than students from the other countries since American students experience greater inequalities in school quality, family resources, and home environments. Notably, they find that programs like childcare, paid maternity leave, housing benefits, health insurance, and unemployment programs are much more generous in these other countries than in the United States, which mitigate disparities in student achievement.

Researchers studying the association between individual safety net programs and student achievement in the U.S. context alone find similar results. For example, in a study of the black-white achievement gap in the U.S., researchers found that the greatest progress for closing the achievement gap was the 1970s and 1980s during a period of widespread investments in safety net programs following the Civil Rights Movement and Lyndon Johnson's War on Poverty (Barton & Coley, 2010). Further, in studies of specific safety net programs such as the Earned Income Tax Credit, researchers have found an association between additional financial supports for working families and student test scores (Dahl & Lochner, 2008; Duncan, Huston, & Weisner, 2007). Other investments in programs like Medicaid or the Supplemental Nutrition Assistance Program (SNAP) have also been shown to improve academic outcomes and reduce the intergenerational cycle of poverty (Bailey, Hoynes, Rossin-Slater, & Walker, 2020; Chester & Alker, 2015).

In California, lawmakers have invested in many aspects of the state's social safety net, which may ultimately help offset the large socioeconomic differences students currently experience. The state operates a complex array of social welfare programs, including public health insurance, cash and food assistance, child care, housing subsidies, and school meals, many of which received major spending boosts in recent years when the state has experienced budgetary surpluses or when the federal government has included increases in economic stimulus packages. Notably, in the aftermath of the Great Recession, the state established its own California Earned Income Tax Credit (EITC) in 2015 and the Young Child Tax Credit in 2019 to help offset the effects of poverty for working families. Research from the Public Policy Institute of California and the Stanford Center on Poverty and Inequality have found that investment in such programs significantly reduce poverty, especially for children. In turn, sustained and improved investments in safety net programs may ultimately reduce growing student inequalities and help reduce pressure on the education system alone to ameliorate the harmful effects of poverty.

Despite these investments, California's K-12 system still serves more students living in poverty than any other state, with an astounding 60 percent of California students who are eligible for free and reduced-price lunches, a proxy for low-income status (Legislative Analyst's Office, 2019). In addition, a significant portion of students come to California's public K-12 system with unique learning needs; for example, enrollment in special education has been on the rise, with disproportionate enrollment of low-income and Black students (Anderson & Li, 2019). Clearly, California has a long way to go to invest in safety net programs that can continue to offset the challenges disadvantaged students bring with them to the classroom.