Getting Down to FACTS

# California Schools' Revenue Sources and Constraints

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# Introduction

Every year California's TK-12 school districts are keenly focused on policymakers' spending decisions to support education for the state's nearly six million public school students. These annual spending decisions are heavily influenced by the health of California's economy and state and local government revenues. While significant attention is paid to the level and allocation of spending to support TK-12 school districts, the sources of revenue that provide that funding often receive less scrutiny. Yet, understanding California's revenue system is critically important for appreciating TK-12 education funding; where that funding comes from, why it lacks stability, how it is allocated, and what can be done to improve it.

State and local government revenues are key factors that determine the amount of funding California's TK-12 school districts receive each year and how state policymakers and local school districts allocate those dollars. Numerous limitations enacted by voters and policymakers have constrained state and local government ability to raise revenue. In turn, these constraints limit state and local government funding for school districts and their spending to support students. A key example is Proposition 13. The enactment of this constraint nearly half a century ago has limited local governments' ability to raise revenue from a fundamental source: local property taxes. Prop. 13's restrictions on property tax support for local school districts led to the state General Fund, instead of local property taxes, becoming the largest source of funding for TK-12 education. This shift meant state revenue sources, not local property taxes, became the critical factor for determining the level of funding for TK-12 school districts and addressing funding inequities among them.

California's General Fund revenue primarily comes from three sources: the personal income tax, the sales and use tax, and the corporation tax. While these revenue sources have consistently ranked among the top three factors that determine state General Fund revenue, the share of state resources comprised by these sources has changed significantly over the past 50 years. Since the enactment of Prop. 13 in 1978 the state's General Fund has grown increasingly reliant on the personal income tax as a revenue source. California's personal income tax is highly progressive due to graduated tax rates that generate more revenue from those with higher incomes. The progressivity of the state's personal income tax rates coupled with the variability in income of wealthy Californians means revenues

generated by the state's personal income tax can fluctuate significantly from year to year. Thus, while the state's personal income tax draws revenue from those most able to pay, its reliance on high income Californians can create instability in General Fund revenue and challenges for policymakers.

General Fund revenue instability creates uncertainty that can inhibit legislative spending, including spending to support TK-12 public school students. Despite a state constitutional requirement to spend a minimum level each year to support the state's K-12 school districts and community colleges, the California legislature has broad authority for allocation of the state's Proposition 98 funding guarantee. For example, the legislature may choose to allocate TK-14 education spending for one-time, instead of ongoing, purposes. Policymakers often use fluctuations in annual General Fund revenue to justify one-time spending. However, the inconsistency of one-time funding can curtail school district allocation of dollars toward ongoing commitments such as hiring teachers, a critical factor that affects student learning.

Compounding the *variability* in state General Fund revenue, and its effect on allocations of dollars to TK-12 schools, are numerous constraints that have limited the *level* of state General Fund revenue. In addition to limiting the capacity of local school districts to raise revenue, Prop. 13 created another key constraint by requiring a two-thirds vote of each house of the legislature to increase state revenues. As state General Fund revenue has become the critical factor that affects the amount of funding provided to California's TK-12 schools annually, constraints on the sources of General Fund revenue have limited funding that supports students. Soon after Prop. 13, California spending per K-12 pupil began to lag the rest of the U.S. and stayed below the national average between the beginning of the 1980s and the mid 2010s.

Constraints on state and local revenue and the erosion of K-12 spending had significant impacts on California students. Eventually the state was sued due to claims it did not provide equal access to basic educational resources such as textbooks, safe facilities, and qualified teachers. Settlement of the *Williams* lawsuit in 2004 provided some modest additional funding for TK-12 education, but it did not address constraints that limit state and local governments' ability to raise revenue. These constraints have limited the legislature's capacity to fund schools and other state priorities such as health care and child care.

A few years after the *Williams* settlement, the Great Recession caused steep reductions in state General Fund revenues and dramatic cuts to funding for TK-12 schools and other state priorities, including social safety net programs. To forestall additional spending cuts, California voters approved a state ballot measure in 2012 that temporarily increased state taxes. Proposition 30 increased personal income tax rates on high-income Californians and added a one-quarter cent increase to the state sales tax. While the sales tax increase expired in 2018, California voters extended Prop. 30's personal income tax rates through 2030 by approving a 2016 state ballot measure—Proposition 55.

Revenues generated by Prop. 30/55 have increased education funding and provided fiscal resources that helped restructure the state's education finance formula. However, Prop. 30/55 taxes will expire in 2030. And, even with the boost to state revenues from Prop. 30/55, funding for California's TK-12 schools continues to fall short relative to the state's fiscal capacity. Education Law Center (ELC) has analyzed states' efforts to support school funding for more than 15 years. To measure a state's effort, ELC calculates state and local revenue received by each state's PreK-12 school districts as a percentage of state economic activity as measured by each state's Gross Domestic Product (GDP). Despite significant improvement since 2012-13, as a share of state GDP, California's K-12 school districts received less from state and local sources in 2022-23 than they did in 2007-08 prior to the Great Recession. California measured 3.4% on ELC's effort index in 2007-08, 2.7% in 2012-13, and 3.3% in 2022-23. Moreover, while California's effort to support TK-12 schools has improved over the past few years, its TK-12 school district revenues as a share of state GDP also falls short when compared with other states and significantly lags the top ranked states with large populations and comparably sized economies. California's ELC effort index ranking was 35$^{th}$ or below between 2007-08 and 2020-21 and in the bottom 10 states for 7 of those years.[1] California's climb to 20$^{th}$ in ELC's 2022-23 effort index ranking, while notable, does not adjust for cost-of-living differentials and remains far below New York, New Jersey, Pennsylvania and Illinois, which all rank in the top 10 and have consistently scored above 3.5% on ELC's effort index over the past 15 years.

**The Impact of School Funding on Achievement**

[1] See Appendix A for information related to rankings of states' TK-12 education revenues cited in this report.

The importance of spending for educational outcomes has been the subject of much debate. Yet, a large body of evidence shows that money, when spent equitably and effectively on key school resources, improves student outcomes and closes achievement and opportunity gaps. Despite mixed results of early research that questioned the efficacy of increased school funding, later studies that employed more rigorous statistical methods demonstrated the connection between funding and achievement.[2] Over the past decade, a growing body of research has shown a consistent association between higher spending and better student outcomes across many states, especially for students from low-income families. Studies of funding efficacy have also shown that increased spending leads to positive longer-term life outcomes including greater earnings post-graduation and lower incidences of poverty.[3]

Research focused on changes to California's TK-12 education finance system made after the Great Recession also shows that effective allocation of additional resources improves student outcomes. Increases in state General Fund revenue after approval of Prop. 30 facilitated the state's fundamental restructuring of its K-12 education finance system, which had been found to be inequitable, irrational, and highly centralized.[4] Enacted in 2013, the Local Control Funding Formula (LCFF) centered equity in the state's main TK-12 funding formula by allocating dollars based on student needs. Analyses of the impact of changes made by the LCFF shows that LCFF-induced increases in per-pupil spending improved academic achievement, reduced the probability of grade repetition, and increased the likelihood of high school graduation.[5]

State General Fund revenue increases not only supported equity through implementation of the LCFF, but also boosted the state's per-pupil funding ranking. In 2010-11, California's per-pupil revenues

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[2] Baker, B.D. (2017). *How money matters for schools*. Learning Policy Institute. https://learningpolicyinstitute.org/product/how-money-matters-report; Johnson, R. C. (2023). *School funding effectiveness: Evidence from California's Local Control Funding Formula*. Learning Policy Institute. https://doi.org/10.54300/529.194; Lafortune, J., Rothstein, J., & Whitmore Schanzenbach, D. (2016). *Can school finance reforms improve student achievement?* Institute for Research on Labor and Employment, University of California, Berkeley. https://irle.berkeley.edu/publications/irle-policy-brief/can-school-finance-reforms-improve-student-achievement/

[3] Jackson, C. K., Johnson, R. C., & Persico, C. (2016). The effects of school spending on educational and economic outcomes: Evidence from school finance reforms. *The Quarterly Journal of Economics*, 131(1), 157–218. https://doi.org/10.1093/qje/qjv036

[4] Loeb, S., Bryk, A., & Hanushek, E. (2007). *Getting down to facts: School finance and governance in California*. https://cepa.stanford.edu/sites/default/files/GDF-Overview-Paper.pdf

[5] Johnson, R. C. (2023). *School funding effectiveness: Evidence from California's Local Control Funding Formula*. Learning Policy Institute. https://doi.org/10.54300/529.194

ranked 46th in the nation after adjusting for regional costs. Since voter approval of Prop. 30 in 2012, the state's per-pupil funding has risen substantially and ranked 13th in the nation in 2022-23.[6] California's increased support for TK-12 schools since approval of Prop. 30 is laudable. However, increases in TK-12 funding follow years of disinvestment and should be measured relative to California's resources and capacity to support students. Moreover, instability in the state's revenue sources could upend recent spending increases because state funding for TK-12 schools largely depends on state revenues. Policymakers have choices about whether to continue relying on the current sources of state and local revenue or to adjust them. Assessing whether such adjustments can improve TK-12 school funding, as well as options for making them, requires understanding state and local revenue sources, the constraints on those sources, and how those constraints have affected the state's TK-12 education finance system.

To provide greater understanding of California's revenue and TK-12 education finance systems, this report first provides a brief history about their development before describing the sources of funding for the state's local educational agencies. The report then examines the sources of state and local revenue, as well as federal funding streams, that provide TK-12 education funding. We then describe the constitutional and statutory constraints on state and local revenues, as well as constraints on federal funding, and the impact of those constraints on TK-12 education and other programs that support students' families. In the second half of the report, we identify principles of high-quality revenue systems, assess California's current revenue system, and present several options for improving it.

[6] Farrie, D., & Kim, R. (2025). *Making the grade: How fair is school funding in your state?* Education Law Center. https://edlawcenter.org/wp-content/uploads/2025/12/Making-the-Grade-2025.pdf.

# A Brief History of California's TK-12 Education Finance System

## 19th Century through Serrano v. Priest

The sources of state and local government revenues and their interactions with California's TK-12 education finance system have changed over time. In the late 19th century California collected revenue from a statewide property tax. The state government used these revenues to help provide more than half of school districts' dollars in 1890. California voters abolished the statewide property tax in 1910, which led school districts to become increasingly reliant on local property tax revenue.[7]

School districts' reliance on local property taxes, which persisted through the 1960s, created disparities in school funding because property values differed significantly across the state. School districts with high property wealth could generate relatively large amounts of revenue with low property tax rates, while low property wealth districts could raise relatively less revenue with higher property tax rates. The disparities in school funding led to a lawsuit filed in 1968 by John Serrano, a parent from a low-property-wealth school district. In response, the California Supreme Court issued a series of decisions between 1971 and 1977. In the *Serrano v. Priest* decisions, the court ruled the state's K-12 education finance system violated the equal protection clause of the federal Constitution, as well as the state constitution's equal protection clause due to its dependence on local property wealth.[8]

In response to the first *Serrano v. Priest* decision, the California legislature revised the state's K-12 education finance system in 1972 by enacting Senate Bill (SB) 90, which attempted to reduce the disparities in funding among school districts that resulted from local property tax revenue. SB 90 increased state aid to schools, providing the largest increases to school districts with lower property wealth and limiting the maximum amount of general purpose state and local revenue that an individual school district could receive.[9] Under this new so-called "revenue limit" system, school districts' general purpose revenue was determined by their 1972-73 funding per pupil plus an annual inflation adjustment that was greater for low-revenue school districts than for high-revenue districts.

[7] Kelly, M. G. (2023). *Dividing the public: School finance and the creation of structural inequity.* Cornell University Press. http://www.jstor.org/stable/10.7591/jj.24653173

[8] Notably, the Serrano decision did not apply to financing of school facilities.

[9] Goldfinger, P., & Kubinec, J. (2008). *Revenues and revenue limits.* School Services of California.

The California Supreme Court ruled SB 90's effort to equalize school funding fell short, which led to additional legislative actions. These actions included enactment of Assembly Bill (AB) 65 in 1977, which attempted to address inequities that resulted from differences in assessed value of property among school districts through a series of formulas commonly known as "power equalization." To achieve a target expenditure level, AB 65 would have required school districts with above-average assessed value per pupil to levy a tax rate that would have been required in the average assessed value per pupil district. This tax rate would have led districts with higher property wealth to raise more revenue than necessary to achieve the target level of expenditure. The state then would have recaptured and redistributed the excess funds from some of the highest assessed value school districts to school districts with below-average assessed value per pupil.[10] However, just before AB 65 was scheduled to take effect, California voters approved Proposition 13 in June of 1978.

## Proposition 13 and its Aftermath

Prop. 13 disrupted the legislature's attempts to address inequities in the state's K-12 finance system by making several changes to the state constitution that severely constrained local property taxes. These constraints meant "property tax revenue fell 57 percent in the year after Proposition 13 was passed."[11]

To cushion the sudden loss of local property tax revenue, the California legislature approved SB 154 three weeks after voters approved Prop. 13, which provided state funding for school districts and other local governments. SB 154 also temporarily addressed a critical challenge created by Prop. 13: how to allocate significantly diminished property tax revenues among local governments. The legislature enacted AB 8 the following year to address this challenge for the long term. AB 8 reallocated local property taxes from schools to cities, counties, and special districts, which reduced school districts' reliance on local property taxes. To backfill the loss of school districts' property tax revenue, the state assumed a greater share of responsibility for education funding.

[10] For a detailed discussion of AB65, see Mockler, J.B., & Hayward, G. (1978). School finance in California: Pre-Serrano to the present. *Journal of Education Finance*, 3(4), 386–401. http://www.jstor.org/stable/40703153

[11] Sonstelie, J., Brunner, E., & Ardon, K. (2000). *For better or for worse? School finance reform in California.* Public Policy Institute of California. p. 52. https://ppic.org/wp-content/uploads/content/pubs/report/R_200JSR.pdf

Prop. 13 and AB 8 fundamentally changed calculations of local school districts' general purpose revenue under the "revenue limit" system created by SB 90. Prior to Prop. 13, a school district calculated its total revenue limit, subtracted the state aid it would receive, and the remainder was the maximum amount it could raise from property taxes. After Prop. 13, a school district calculated its total revenue limit and subtracted the district's share of the property tax rate to determine the district's level of state aid.[12] As a result, the state became responsible for all of a school district's marginal income. This change in calculating school districts' revenue limits, and the limitations on local property taxes imposed by Prop. 13, meant funding for the state's K-12 education finance system became heavily dependent on state tax revenues. In fact, the share of K-12 education funding that came from the state increased from 36% in 1976-77, the year prior to Prop. 13, to 65% in 1979-80.[13]

In addition to limiting *local* governments' ability to raise revenue, Prop. 13 significantly constrained the *state's* ability to levy taxes by requiring a two-thirds vote of each house of the legislature to increase state revenues. Prop. 13's constraint on the state's ability to raise revenue meant the size of the state budget became reliant on existing sources of state revenue and the health of the state's economy. Because California school districts now depended on the state for the majority of their funding, the foundation of school districts' general operating funds depended on the state's General Fund.

The combination of revenue constraints at the state and local level altered policymakers' approach to TK-12 education funding. For example, the legislature could no longer equalize school funding by redistributing local property tax revenue from TK-12 school districts with high assessed property value to school districts with lower assessed values. Instead of using this approach to increase local school district funding, state and local revenue constraints eroded TK-12 education funding.

Prop. 13 also fundamentally changed funding for school facilities. By prohibiting local school districts from levying property taxes to fund local general obligation (GO) bonds, Prop. 13 eliminated this local revenue source and the state became the only funding option for constructing and

[12] Goldfinger, P., & Kubinec, J. (2008). *Revenues and revenue limits.* School Services of California.
[13] California Budget Project. (1997). *Proposition 13: Its impact on California and implications.* https://calbudgetcenter.org/app/uploads/2018/09/Issue-Brief_Proposition-13-Its-Impact-on-California-and-Implications_04.1997.pdf

modernizing school district facilities. The state legislature responded by placing two GO bond measures on the state ballot in the early 1980s that provided $950 million for school facilities. These bonds did not meet the growing need to finance local school facilities, however.[14] To help meet that need, California voters approved Proposition 46 in 1986, which re-established the ability of local school districts to issue GO bonds. Prop. 46 allowed local governments to levy property tax rates above 1% to pay off debt used to finance public facilities with the approval of two-thirds of local voters. K-12 school districts were now able to increase property taxes for the purpose of repaying voter approved debt, but the ability to raise facilities revenue was constrained by a district's debt capacity limit, which is determined by its assessed property value.[15]

The year after Prop. 13, state voters approved another constitutional amendment in 1979 that constrained state and local governments. Proposition 4, also known as the Gann limit, established a cap on state and local school district spending that created a tacit constraint on state and local revenue. State and local revenues above this spending limit were considered "excess" revenues to be returned to the public through tax refunds.[16] Gann limit constraints led to another constitutional amendment that has come to define California's K-14 education finance system—Proposition 98.

## The Proposition 98 Era

California voters approved Proposition 98 in 1988, in part to change the Gann limit's constraint on state spending. Instead of returning all revenues in "excess" of the Gann limit to taxpayers, Prop. 98 required that a portion be spent to support K-12 schools and the state's community colleges. Prop. 98 also established a constitutionally guaranteed minimum annual funding level for K-12 schools and community colleges that is calculated using a series of formulas, sometimes called "tests." Prop. 98's

[14] For a more detailed discussion of state actions to support school facilities after Prop. 13, see Brunner, E. (2006). *Financing school facilities in California.* Institute for Research on Education Policy and Practice, Stanford University. https://cepa.stanford.edu/sites/default/files/6-Brunner%283-07%29.pdf.

[15] A school district's debt capacity limit is set at 1.25 percent of assessed value for elementary and secondary districts and 2.5 percent for unified school districts.

[16] Legislative Analyst's Office. (1979). *An analysis of Proposition 4 the Gann "Spirit of 13" initiative.* p. 85. https://lao.ca.gov/reports/1979/20_analysis_of_proposition_4_the_gann_spirit_of_13_initiative.pdf

initial tests were based on either a percentage of state General Fund revenue *or* the prior year guarantee adjusted for K-12 attendance and an inflation measure.[17]

In 1990, the California economy entered a recession, which created severe pressure on the state General Fund and made it difficult for the legislature to fulfill both the Prop. 98 minimum funding guarantee for K-14 education and to provide the level of resources required to support non-education programs at a time of greater demands. As a result, the legislature placed another measure on the California ballot in 1990—Proposition 111. Voter approval of Prop. 111 made changes to the Gann limit that allowed state government spending to grow at a faster pace than initially established by Prop. 4. Prop. 111 also changed the original Prop. 98 inflation factor and added new Prop. 98 formulas used to calculate the minimum funding level for K-12 schools and community colleges that remain in effect today. While these formulas were designed to protect funding for K-14 education and non-education programs, they have led to uncertainty for both, especially given the volatility of state General Fund revenues and the constraints that make it difficult to adjust the state's revenue system. Revenue constraints meant the state General Fund and education spending became increasingly dependent on personal income tax revenue, which is less stable than other sources. Despite a significant increase in state General Fund revenue in 1999-2000, caused by the so-called dot com economic boom of the late 1990s, California per-pupil spending consistently lagged the rest of the U.S. from the 1980s through the 2000s.

By the beginning of the 2000s, learning conditions had deteriorated so significantly that state leaders settled the *Williams* lawsuit, which argued students lacked basic educational resources such as textbooks and qualified teachers. The Great Recession of the late 2000s caused state General Fund revenues to fall sharply, and revenue constraints hampered state and local governments' ability to address budget shortfalls, which led to additional impacts for schools and students. By 2010-11, California ranked 46$^{th}$ in the nation in K-12 funding per student, adjusted for differences in regional costs, and the state ranked last in the nation with respect to the number of students per teacher, guidance counselor, and librarian.

[17] The inflation measure initially established by Proposition 98 was equal to the lesser of the annual percentage change in California per capita personal income or the change in the U.S. Consumer Price Index.

Various changes have been made to California's K-12 education finance system since the early 1990s. Most notably, the legislature created the Local Control Funding Formula in 2013, which restructured the allocation of education funding to most of the state's local school districts. However, the rules that govern local property taxes, the formulas used to determine state spending to support K-12 school districts, and the interaction between state and local sources of education funding, were established in the period between the *Serrano S*upreme Court decisions and voter approval of Prop. 98 and Prop. 111. State and local government sources provide a large majority of funding received by TK-12 school districts. Analyzing these sources and the revenue streams that fund them is essential for understanding California's TK-12 education finance system.

## California TK-12 School District Finance Data

The data used in this report to analyze funding received by California local educational agencies (LEAs) come from financial information publicly reported by the California Department of Education (CDE). CDE requires LEAs, which include TK-12 school districts, charter schools, and county offices of education, to annually submit financial records using its Standardized Account Code Structure (SACS), which are publicly downloadable.[18] SACS accounting codes are defined in the California School Accounting Manual (CSAM).[19]

CDE requires LEAs to account for fiscal transactions using several fund classification codes. Unless otherwise noted, analyses in this report of funding received by California's LEAs reflect transactions that are recorded in SACS fund code 01, categorized as an LEA's "general fund" that the CSAM defines as "…[T]he chief operating fund for all LEAs...used to account for the ordinary operations of an LEA."[20]

[18] California Department of Education. (2026). *Annual financial data*. Retrieved February 26, 2026, from https://www.cde.ca.gov/ds/fd/fd/

[19] For a detailed description of the SACS and the list of its accounting codes, see California Department of Education. (2024). *California school accounting manual.* https://www.cde.ca.gov/fg/ac/sa/documents/csam2024complete.pdf

[20] California Department of Education. (2024). *California school accounting manual.* p. 305-4. https://www.cde.ca.gov/fg/ac/sa/documents/csam2024complete.pdf

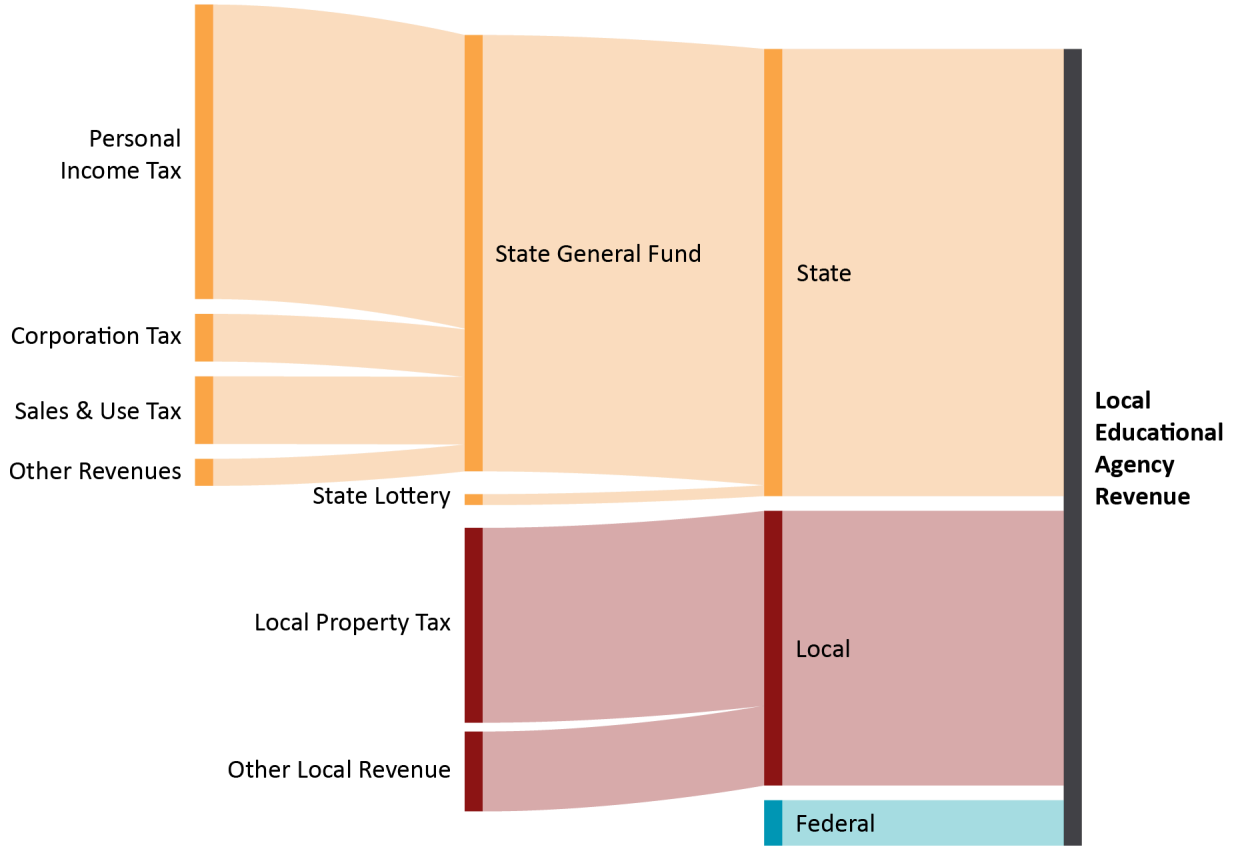
Analyses in this report of funding received by California's LEAs exclude special revenue funds, capital project funds, debt service funds, proprietary funds, and fiduciary funds.[21] Special revenue funds account for specific revenue sources that are restricted to the financing of particular activities such as adult education and child development programs. Capital project funds account for financial resources used to acquire or construct major capital facilities and other capital assets and debt service funds account for resources accumulated to pay for principal and interest on general long-term debt. Proprietary funds generally reflect business-like activities, including those for which fees are charged, and fiduciary funds account for assets that cannot be used to support LEA's own programs.

## Funding Sources for California's TK-12 Schools

California TK-12 school districts, charter schools, and county offices of education receive funding from state, local, and federal sources. The majority of revenue used for the "ordinary operations" of California's LEAs in 2024-25, on average, came from state funding sources (58.3%) and more than one-third (35.8%) came from local funding sources. Federal sources provided less than 1 out of 10 dollars LEAs received statewide (5.9%), although some LEAs received a larger share of their revenue from federal sources. [See Figure 1]

[21] Analyses in this report exclude funds received by charter schools that are not accounted for in their, or their authorizing local educational agencies (LEA's), general fund. Specifically, the report excludes funding received by LEA-operated charter schools accounted for in the charter schools special revenue fund that are not recorded in the authorizing LEA's general fund. The report also excludes transactions accounted for in the charter schools enterprise fund, which reflect funding received by LEA-operated not-for-profit public benefit charter schools that use accrual accounting and not-for-profit public benefit charter schools that report separately from their authorizing LEAs.

**Figure 1: What Are the Sources of Local Educational Agency Revenue?**




Notes: Local educational agency (LEA) revenue from state, local, and federal funding sources reflects LEA general fund data from the California Department of Education. State General Fund revenue reflects California Department of Finance (DOF) data that exclude loans and transfers and adjust personal income tax and corporation tax revenues for DOF estimates of the impact of tax credits related to the Pass-Through-Entity-Elective Tax (PTET). See Appendix for more details about analysis of state General Fund revenue.
Sources: Learning Policy Institute analysis of 2024-25 data from the California Department of Education and California Department of Finance.

As previously discussed, Proposition 13 dramatically changed the share of California's LEA revenues that come from the state and local governments. Prior to 1978-79, local funding sources provided the majority of LEA revenues. In 1979-80, however, local property tax revenue dropped by more than 50% due to Prop. 13 capping local property tax rates at 1%. In response, the California legislature backfilled the loss of local property tax revenue with state General Fund dollars, which have continued to be the primary source of LEA revenues in every year since enactment of Prop. 13.

Given that the state budget provides the majority of funding that LEAs receive annually, it is important to understand the sources of revenue that provide that funding.

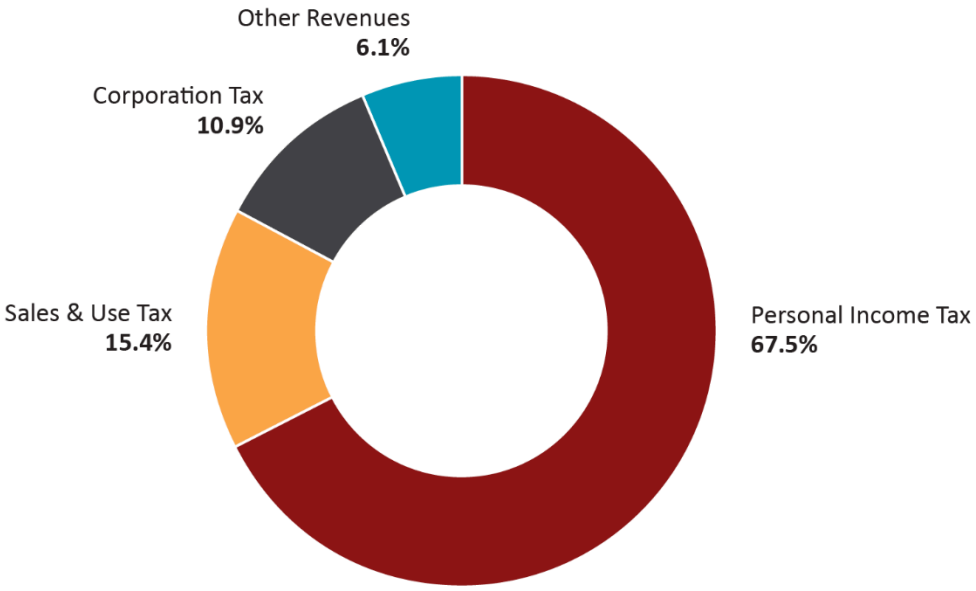
## Sources of State Revenue that Provide Funding for TK-12 Education

Nearly all state funding used for the ordinary operations of TK-12 school districts comes from California's General Fund.[22] Almost 95% of state General Fund revenue comes from three sources: the personal income tax, the sales and use tax, and the corporation tax. In 2024-25, personal income taxes accounted for more than two-thirds of state General Fund revenue (67.5%), sales and use taxes comprised less than one out of every six General Fund dollars (15.4%), and the corporation tax accounted for slightly less than one out of every nine dollars in General Fund revenue (10.9%).[23] [See Figure 2]

[22] State funding for TK-12 school districts' ordinary operations reflects funding administered by the California Department of Education and excludes funding provided for school facilities, such as through the School Facilities Aid Program, and state Contributions to the State Teachers' Retirement System. In 2024-25, the state General Fund accounted for 97.9% of state spending for TK-12 education and, among other state special funds, the State Lottery Education Fund accounted for 1.9% of state TK-12 education spending. Half of the growth in lottery funds above the 1997-98 lottery funding level must be spent on instructional materials and may not be used for other general purposes.

[23] For details about analysis of state General Fund revenue, see Appendix A.

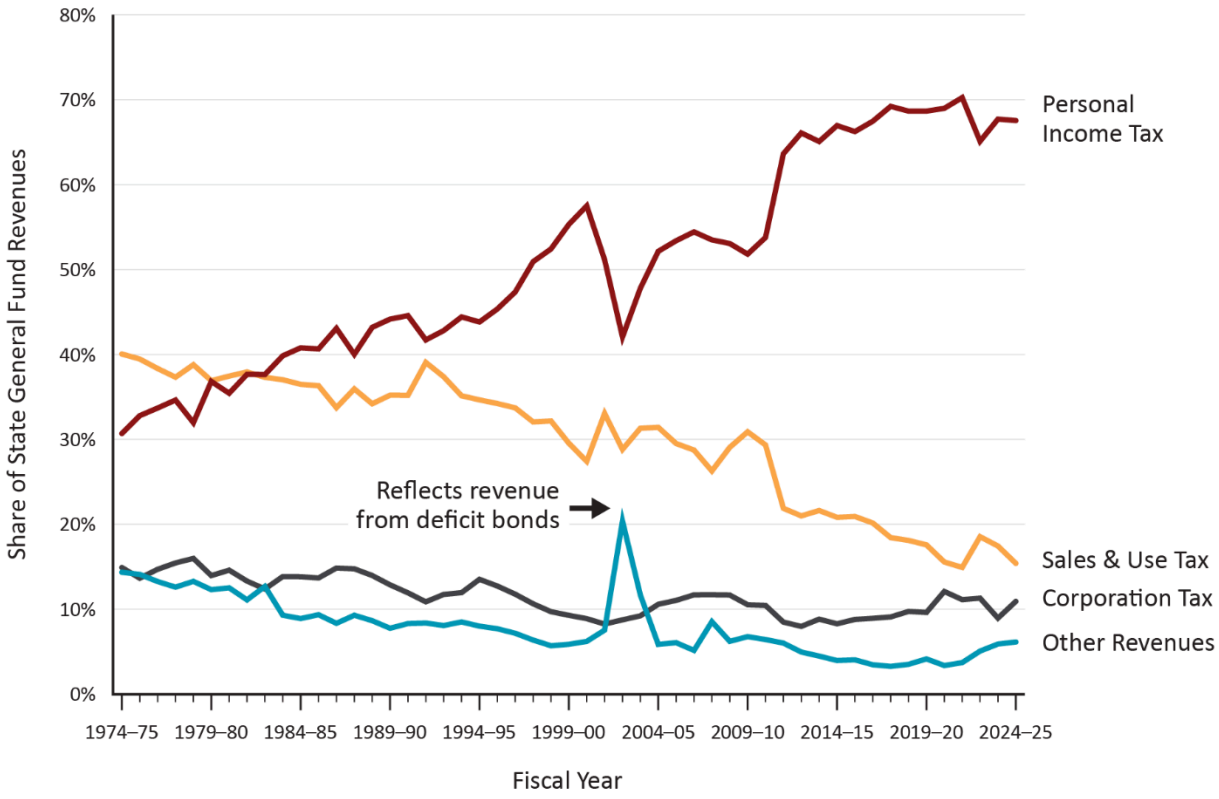
**Figure 2: State General Fund Revenue Sources, 2024-25**




Notes: Excludes loans and transfers. "Other Revenues" reflect several revenue sources such as alcoholic beverage taxes and fees; estate, inheritance, and gift taxes; insurance gross premium taxes; and minor revenues. Figures do not sum to 100 due to rounding.
Source: California Department of Finance.

Over the past 50 years, the personal income tax, the sales and use tax, and the corporation tax have been the three largest sources of state General Fund revenues. However, the share of state General Fund resources that comes from these sources has changed significantly. In 1974-75, the personal income tax comprised 30.7% of state General Fund revenue, less than half of the share it provided in 2024-25. Conversely, the sales and use tax comprised roughly 40% of state General Fund revenue in 1974-75, approximately twice the share it provided to the state General Fund in 2024-25. The share of state General Fund revenues provided by the corporation tax has fluctuated over time, declining from 14.9% in 1974-75 to 8.3% in 2001-02. Corporation tax revenues increased to 11.7% of state General Fund revenue by the end of 2000s, declined to 8.0% in 2012-13, and increased to comprise 10.9% of state General Fund revenue in 2024-25. [See Figure 3]

**Figure 3: Personal Income Tax Revenues Have Increased as a Share of State General Fund Revenues Over the Past 50 Years**




Notes: Excludes loans and transfers. Personal income tax and corporation tax revenues are adjusted in fiscal years 2021–22 through 2024–25 to reflect California Department of Finance estimates of the impact of tax credits related to the Pass-Through-Entity-Elective Tax (PTET).
Sources: California Department of Finance and Legislative Analyst's Office

Several factors have contributed to the share of General Fund revenue sources changing over the past 50 years. For example, progressive personal income tax rates coupled with income growth of those with high incomes have led to increased personal income tax revenue as a share of General Fund revenue. Changes in consumer economic activity have been a factor driving the decline in the share of General Fund revenue derived from the sales and use tax; Another factor in that decline are shifts in state sales and use tax revenues from the state's General Fund to special funds that are dedicated to counties to pay for costs associated with the so-called "realignments" of 1991 and 2011. These realignments transferred fiscal and programmatic responsibilities for several public services, including

health, public safety and social services, from the state to counties. For more information about the shifts in sales and use tax revenues associated with the 1991 and 2011 realignments and their impact on the composition of state General Fund revenues, see Appendix A.

## Sources of Local Revenue that Provide Funding for TK-12 Education

While state General Fund revenue provides the majority of funding for the ordinary operations of LEAs, local revenues account for roughly one-third of local school districts' funding. As a share of local revenues, local property taxes comprise most of the funding used by TK-12 school districts for general purposes accounting for more than two-thirds of overall local revenue (71.0%) received by school districts in 2024-25. Over the past 20 years, the share of school district revenues that comes from local property taxes has remained fairly stable, hovering around one-fourth of the total revenue local school districts receive annually.

Aside from local property taxes, local revenue sources include interest income, other local revenues such as contributions and gifts, and parcel tax revenue.[24] Parcel taxes are the main discretionary source of tax revenue available to TK-12 school districts for their ordinary operations.[25] However, parcel taxes accounted for just 0.5% of total LEA general fund revenue statewide in 2024-25.[26] Parcel taxes require approval by two-thirds of local voters, which may be one reason they comprise such a small share of the total revenue received by TK-12 school districts statewide. Despite parcel taxes accounting for a small share of total LEA revenue statewide, research has found that "the likelihood of levying a parcel tax is positively related to the average income of households in a district," suggesting that they may contribute to funding inequities among TK-12 school districts.[27]

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[24] While school districts are required to account for private contributions and gifts in the annual financial records they submit to the California Department of Education (CDE), CDE's Standardized Account Code Structure does not single out private contributions as a distinct category of revenue.

[25] Parcel taxes are the sole tax revenue source local educational agencies (LEAs) can use for general purposes without requiring joint action with another local government. For example, LEAs can receive proceeds from sales taxes for general purposes but only through countywide ballot measures that require approval by two-thirds of county voters. TK-12 school districts may also levy taxes to repay debt used to finance general obligation bonds for education facilities and capital projects.

[26] Parcel taxes have comprised less than 0.7% of total annual LEA general fund revenue statewide since at least 2004-05.

[27] Sonstelie, J. (2015). *Parcel taxes as a local revenue source in California*. Public Policy Institute of California. https://www.ppic.org/wp-content/uploads/content/pubs/report/R_415JSR.pdf

## Federal Funding Sources for TK-12 Education

Federal dollars provided roughly 6% of funding for the ordinary operations of California's TK-12 school districts in 2024-25. The U.S. Congress determines annual funding levels for federal education programs, which can vary significantly. California received a sizable increase in one-time dollars during the pandemic, via Elementary and Secondary School Emergency Relief Fund (ESSER) funds that were appropriated through the Coronavirus Aid, Relief, and Economic Security (CARES) Act, and other COVID relief dollars. As of 2025, those funds have been spent down and are no longer available.

In addition to determining funding levels, Congress establishes funding formulas for many federal education programs. These formulas are used to allocate dollars to states, which distribute funds to LEAs. Each federally funded education program has its own rules and regulations, which require the California Department of Education to dedicate considerable resources to compliance monitoring. California schools and TK-12 school districts must also monitor the use of federal funds and ensure compliance with federal rules and regulations. For more information about federal programs and key rules and regulations, see Appendix B.

## Sources of Revenue that Provide Funding for TK-12 Education Facilities and Capital Projects

In addition to resources used for their ordinary day-to-day operations, California TK-12 school districts receive funding for capital projects, such as school facilities. California's system of financing TK-12 education facilities involves a combination of state and local revenue sources. To receive state funding for facilities projects, TK-12 school districts usually must make their own contributions toward them.

Both the state and local TK-12 school districts use general obligation (GO) bonds as the main revenue source for facilities.[28] Revenues available for school facilities depend on several factors including voter approval of state and local GO bond measures. State GO bond measures must be placed on a statewide ballot, either by a two-thirds vote of the legislature and approval of the Governor or through the initiative process. State GO bonds require approval of a majority of California voters. Local GO school

[28] K-12 school districts have other options to raise revenue for school facilities such as imposing parcel tax measures, but they rarely use this option.

bond measures must receive the support of two-thirds of the governing board of a TK-12 school district for the bond to be placed on a ballot for approval by a school districts' voters.[29] In addition to relying on voter approval of GO bonds to finance the construction or modernization of school facilities, the ability of school districts to raise revenues for facilities varies depending on the assessed value of property within a school district. A lawsuit filed in 2025 against the state of California contends that this inequity, and the requirement for school districts to provide matching funds for facility modernization projects, discriminates against low-income school districts on the basis of wealth.[30] Moreover, the Getting Down to Facts III "California's School Facilities in a Changing Climate" report found that "districts with higher levels of local property wealth raise significantly more capital revenue per student: nearly 4.5 times as much local bond revenue" per assessed property value, in 2023-24.[31]

## Revenue Source Constraints

Revenues raised by state and local governments determine funding for public schools and other programs and services that support the state's TK-12 students and their families. However, California's voters and the legislature have enacted numerous constraints limiting the ability of state and local governments, including TK-12 school districts, to raise revenue. An analysis of every constraint placed on state and local revenue raising capacity is beyond the scope of this report. But focusing on key constraints can help policymakers understand California's current revenue system, its limitations, and actions that would be necessary to change it.

A key difference among revenue constraints is whether they are state constitutional provisions or the legislature enacted them in state statutes. Many of the state's most consequential revenue constraints are in the state constitution, which makes them harder to change because doing so requires approval by California voters. While modifying most revenue constraints in state statutes does not

[29] Proposition 13, of 1978, prohibited local school districts from levying property taxes to fund GO bond debt. However, subsequent amendments to the state constitution have allowed voter approved GO bond debt, which is discussed in the Revenue Source Constraints section of this report.
[30] *Miliani v. State of California*, Superior Court of the State of California, County of Alameda. (2025). https://publicadvocates.org/wp-content/uploads/2025/10/2025.10.23-Complaint.pdf
[31] Hinkley, S. & Vincent, J. (Forthcoming). *California's school facilities in a changing climate: resilience, equity, and educational readiness.* Getting Down to Facts III.

require action by California voters, the legislature's ability to address them is hindered by super-majority voting thresholds codified in the state constitution.[32]

## Constitutional Revenue Constraints

*Proposition 13*

As described above, California voters enacted Proposition 13 in June of 1978. Prop. 13 amended the state constitution and made several changes to how state and local government finance public services. Prop. 13 established a key constraint on the state's capacity to raise revenue by requiring that measures enacted for the purpose of increasing state revenues must be approved by a two-thirds vote of each house of the legislature. Prop. 13 also constrained local governments' revenue raising capacity by requiring two-thirds of their voters approve taxes designated for a specific purpose. By prohibiting the imposition of new taxes based on property value, Prop. 13 also prevented local school districts from levying property taxes to repay local general obligation (GO) bond debt to finance school facilities.

In addition to limiting the ability of state and local governments to raise revenue, Prop. 13 also made several changes that significantly constrained local property taxes, including these provisions:

- **Caps property tax rate at 1 percent**. Prop. 13 limited local property tax rates to 1 percent of the value of the property at the time of its acquisition.[33] Prior to Prop. 13, local governments determined property taxes and a property's tax rate "reflected the sum of individual property tax levies of multiple local governments serving a property."[34] At the time Prop. 13 was approved the average property tax rate in California was 2.67%, which provided local governments greater capacity to support programs and services.
- **Rollback of property assessments.** Prop. 13 rolled back property values for tax purposes to 1975-76 assessments.

[32] Certain types of laws enacted by the California legislature may require subsequent approval by state voters including bills authorizing the state to issue bonds and amendments to initiative statutes originally approved by a voter initiative.
[33] Prop. 13 included an exception to the 1 percent cap on property tax rates for bonded debt approved by voters prior to July 1, 1978. Cali. Const. art. XIIIA, §1(b). Voter approval of Proposition 46 in 1986 re-established the ability of local governments to levy property tax rates above 1 percent to pay off debt used to finance public facilities with the approval of two-thirds of local voters.
[34] Legislative Analyst's Office. (2016). *Common claims about Proposition 13.* p. 2. https://lao.ca.gov/reports/2016/3497/common-claims-prop13-091916.pdf

- **Property reassessments**. Prop. 13 changed how property was assessed annually for tax purposes. Prior to Prop. 13, property taxes were based on a property's market value. In contrast, property taxes under Prop. 13 are based on a property's purchase price and reassessments to market value only occur when a property changes ownership. Prop. 13 limits annual increases to 2 percent for reassessments of property that do not change ownership.

*Proposition 4: The Gann Limit*

In 1979, California voters enacted Proposition 4 as an amendment to the state constitution. Prop. 4, also known as the Gann Limit, created an appropriation limit that applies to both the state and most types of local governments.[35] The Gann Limit capped the growth in state and local government appropriations at 1978-79 levels adjusted annually for inflation and the change in population. While often referred to as a spending limit, the Gann Limit also functions as a revenue constraint because "proceeds of taxes", under Prop. 4, are the base from which appropriations subject to the limit are calculated.[36] Proceeds of taxes that exceed the annual appropriations limit must be returned to taxpayers. As a result, Prop. 4 limits tax revenues, which at the state level are primarily determined by the personal income tax, the sales and use tax, and the corporation tax.

A key factor that constrained revenue under Prop. 4 was its definition of inflation, which was equal to the *lesser of* the annual percentage change in the U.S. Consumer Price Index or the annual percentage change in California per capita personal income. The combination of this inflation factor and unexpectedly high state income tax revenue in the mid-1980s caused the state to return more than $1 billion in state tax revenues collected in 1986-1987 to state taxpayers. This stark demonstration of Prop. 4's revenue constraint, and the commensurate limitation on state spending, led state voters to revise Gann Limit provisions when they approved Proposition 111.

[35] Prop. 4 excludes certain spending from the appropriation limits such as appropriations required by federal and court mandates.

[36] In its analysis of Proposition 4, the California Legislative Analyst stated that "proceeds of taxes" was one of the initiative's most important terms as it "determines the base from which 'appropriations subject to limitation' must be calculated. Included in 'proceeds of taxes' are the revenues from general tax levies, such as the personal income, retail sales and use, and bank and corporation taxes." For a more detailed explanation of Proposition 4, see Legislative Analyst's Office. (1979). *An analysis of Proposition 4 the Gann "Spirit of 13" initiative.* https://lao.ca.gov/reports/1979/20_analysis_of_proposition_4_the_gann_spirit_of_13_initiative.pdf

*Proposition 111*

California voters enacted Proposition 111 in 1990, which amended the state constitution to make significant reforms to the Gann Limit. For example, Prop. 111 exempted certain spending from appropriations subject to the Gann Limit including capital outlay and changed how revenues above the limits were to be distributed, requiring half of excess revenues be allocated to TK-14 school district spending.[37] Prop. 111 also revised the inflation factor used to calculate the growth in annual appropriations subject to the Gann Limit. Prop. 111 maintained the annual percentage change in California per capita personal income as the inflation factor used to calculate annual appropriation limits and removed the annual percentage change in the U.S. Consumer Price Index as one of the factors that could be used to make that calculation. This change meant Gann appropriation limits grew faster than they had under Prop. 4 allowing spending to keep up with economic growth.[38] As a result, the Gann Limit has not required refunds to taxpayers in the three decades since Prop. 111 was approved.

More recently, however, the state legislature has been confronted by challenges created by the Gann Limit. In 2021, the California Legislative Analyst reported that the state appropriations limit was likely to be a major issue in the coming years and pointed to strong revenue growth as a primary cause, which underscores how the Gann Limit creates a tacit constraint on revenue increases.[39] The Legislative Analyst noted that, since 2010, growth in personal income tax revenue has exceeded the growth in personal income due to progressive personal income tax (PIT) rates, high-income taxpayers experiencing faster income growth than the general population, and high-income Californians receiving a disproportionate share of their income from capital gains. Because the state treats capital gains on the sales of assets as taxable income but excludes capital gains from the measure of personal income used to calculate Gann limits, increased revenue from capital gains does not increase the state appropriations limit and could trigger future rebates to taxpayers.

[37] Revenues above the state appropriations limit must be distributed to TK-12 school and community college districts on a per-pupil basis as opposed to allocations through equity-based funding formulas such as the Local Control Funding Formula.
[38] Prop. 111 also required calculations of revenue above appropriation limits be made over a two-year period rather than in a single year, making it less likely that the Gann Limit would cause tax rebates.
[39] Petek, Gabriel. (2021, April). *The state appropriations limit.* Legislative Analyst's Office. https://lao.ca.gov/reports/2021/4416/SAL-042121.pdf

*Proposition 218*

California voters approved Proposition 218 in 1996. Prop. 218 added provisions to the state constitution that defined TK-12 school districts as "special districts" and prohibited them from levying general purpose taxes.[40] Prop. 218 required local governments, aside from TK-12 school districts, to gain majority voter approval for any new or increased taxes for general purposes.[41] Prop. 13's constraint on local property taxes and requirement that two-thirds of voters approve taxes designated for a specific purpose, led local governments to seek revenue alternatives to support local public services. These alternatives included property-related fees, assessments, and general purpose taxes (such as hotel, business license, and utility user taxes). To restrict local governments' ability to raise revenue from these alternative sources, Prop. 218 required local voter approval of assessments and made it more difficult to impose fees.

*Proposition 39*

California voters approved Proposition 39 in 2000. Prop. 39 amended the state constitution by reducing the voting requirement to 55% for approval of local general obligation (GO) bonds to finance school facilities. Voters had established a two-thirds voting threshold for these local GO bonds when they approved Proposition 46 in 1986. Prior to Prop. 46, Prop. 13 prohibited local governments from levying property taxes to fund GO bond debt.

While Prop. 39 lowered the voting threshold for approval of bonds to finance school facilities, it created new constraints on this local GO bond debt because legislation associated with the measure created restrictions for bonds approved by the 55% threshold.[42] One restriction caps tax rates for Prop. 39 GO bonds by prohibiting unified school districts from proposing, on any single ballot, a tax increase of more than $60 per $100,000 of assessed valuation and capped tax increases for other school districts at $30 per $100,000 of assessed valuation. Another restriction requires two-thirds of a local school district's governing board to place a bond issue on the ballot, rather than a majority vote.

[40] Cal. Const. art. XIIIC, §1c.
[41] Cal. Const. art. XIIIC, §2a and §2b.
[42] Cal. Stats. 2000, ch. 44.

*Proposition 26*

California voters approved Proposition 26 in 2010. Prop. 26 amended the state constitution and required a two-thirds vote of the legislature to increase many fees that formerly had only required a majority vote. Prop. 26 also tightened Prop. 13's constraint on the capacity of the state legislature to raise revenue by requiring a two-thirds Legislative vote to approve "any change in state statute which results in *any* taxpayer paying a higher tax."[43] Prior to Prop. 26 a legislative measure that included some provisions that increased revenues, and others that decreased revenues, could have been approved by a majority vote of the legislature if the measure did not result in an overall increase in state tax revenues. As a result, Prop. 26 constrains the ability of the legislature to make adjustments to the state's revenue system.

## Statutory Revenue Constraints

Numerous constraints that limit the revenue raising ability of the state as well as local governments exist in state law. Many of these statutory constraints were enacted by a majority vote of the legislature and do not require the approval of voters to change them. Yet, provisions placed in the state constitution by Prop. 26 require a two-thirds vote of each house of the legislature to make changes to statutory revenue constraints that cause any single taxpayer to pay a higher tax – a requirement that applies to statutes enacted before voters approved Prop. 26 in 2010. This supermajority vote threshold has created a significant obstacle for the state legislature to make changes to California's revenue system.

Key constraints on state and local revenue raising capacity that exist in California statutes include:

*The State Sales Tax*

The California legislature enacted the Retail and Sales Tax Act in 1933, which imposed a state tax on the retail sale of tangible personal property. In 1941, the legislature defined tangible property as property that can be "seen, weighed, measured, felt, or touched," which prevents the state from imposing the

[43] Cal. Const. art. XIIIA, §3a. Italics added by authors.

sales tax on the sale of services or digital goods.[44] Moreover, the legislature has enacted several laws that exempt certain tangible goods from the state sales tax in the decades since it was established, such as prescription medicines.

*Inheritance Tax*

California voters approved Proposition 6 in 1982, repealing the state's inheritance tax that had existed in state law since 1893. Prop. 6 required the state to impose a so-called "pick-up" tax that provided California a share of the revenue collected by the federal Estate Tax but the U.S. Congress permanently eliminated the "pick up" tax in 2013. While Prop. 6 did not change California's constitution, it prohibited the legislature from imposing an inheritance or estate tax without voters' approval.

*Water's Edge Election*

In 1986, the California legislature enacted a significant change in corporation tax law that affected how the state levies taxes on the income of multinational corporations.[45] Prior to enactment of this change, California required multinational corporations to calculate their California income using a method known as the worldwide combination. The worldwide combined reporting method apportioned income based on a corporation's total worldwide income and total worldwide property, payroll, and sales. The 1986 legislation permitted corporations to choose whether to use the worldwide combination method or an alternative that allows corporations to calculate their California income based only on operations within the United States and certain tax havens. Under this so-called "water's-edge" election multinational corporations can choose the method that results in lower tax liability.

While the legislature established this tax break in state law with a majority vote, any changes to the water's edge election that cause state revenues to increase would require a two-thirds vote of each house of the legislature due to provisions placed in the state constitution by Prop. 26.

*The Research and Development Tax Credit*

[44] Cal. Rev. & Tax Code § 6016.
[45] Cal. Stats. 1986, ch. 660; Cal. Rev. and Tax Code §25110, *et seq*.

The California legislature established the state's Research and Development Tax Credit (RTC) in 1987. The RTC allows both corporate and personal income tax filers to reduce their tax liability for qualified research activities. It is California's largest business tax credit and, like many other state tax credits, creates an ongoing reduction to state General Fund revenue because it does not have a sunset date, which means it permanently exists in state law unless the legislature takes action to end, restrict, or suspend it. Moreover, California permits corporations to use the RTC to offset future tax liabilities, allowing them to stockpile credits that they may not need in one year to reduce the amount of taxes they pay in a future year. Also, like other tax credits that only require a majority legislative vote for approval, changes to the RTC that cause any taxpayer to pay more in taxes would require a two-thirds vote of each house of the legislature due to provisions placed in the state constitution by Prop. 26. Thus, the ongoing constraints on state General Fund revenues created by the RTC, like other state tax credits, are difficult to mitigate or remove.

*Net Operating Loss*

The California legislature created provisions in state law that allow corporations to use a net operating loss (NOL) to reduce taxable income in a future year. A NOL occurs when a corporation's allowable deductions, such as expenses, exceed its gross income. California law allows corporations to carry NOLs forward for up to 20 years after the year of the loss. In 2023, corporations had more than $1.3 trillion in unused NOLs that can be deducted from profits in a future tax year creating a constraint on revenue in the year that NOLs are used by corporations to reduce their taxable income.

## Federal Revenue Constraints

Federal funding that supports students in California's TK-12 schools comes with several significant constraints. Importantly, the state of California does not have the authority to adjust the level of federal funding and many federal funding streams have rigid rules and regulations that restrict how the dollars are allocated and what they can support. Any potential changes to the level of federal funding or allocation formulas must be approved by the U.S. congress. Moreover, the federal government can eliminate federal programs. Any changes to federal programs or the funding they provide would impact local educational agencies (LEAs) in California differently. For

example, some LEAs receive a larger amount of federal funding based on the student populations they serve and these LEAs would therefore be impacted more by cuts and/or threats of cuts to funding.[46]

Short of elimination of programs, federal policy changes can dramatically restrict the use of federal dollars. A series of recent federal actions have fundamentally shifted the federal approach to education, moving away from policies that once protected access for all students. These actions include cuts to health and nutrition services that support learning, restrictions for access to educational programs, and increased immigration enforcement. Additional threats by the executive branch to federal allocations for education programs that support migrant education and students who are learning English as second language have further constrained these funding streams.[47]

Additionally, federal actions to restrict access to federal health, nutrition, and education programs impact California and its residents. Due to these federal actions, the state of California must decide whether to backfill these key services with state General Fund dollars, which absent additional revenue could place increased pressure on other areas of the budget such as funding for child care slots, CalFresh benefits, MediCal benefits, and many others.

## The Impact of Revenue Constraints

California's revenue constraints affect the level of resources available to state and local governments and funding for TK-12 school districts. A significant impact of California's revenue constraints on TK-12 education funding are school staffing ratios. California's student-to-staff ratios are persistently among the highest in the nation. California's student-to-librarian ratio was more than 9,000 to 1, the highest in the nation in 2023-24. California also had relatively high numbers of students per counselor and administrator, ranking 43rd and 46th respectively among all states and the District of Columbia. California's student-to-teacher ratio was greater than 21 to 1, more than 40% higher than the national ratio of 15.2 students per teacher and nearly double New York's 11.7 student-to-teacher

[46] EdTrust. (2025, September 15). *FY26 federal funding at risk for America's schools.* Retrieved February 24, 2026, from https://edtrust.org/rti/fy26-federal-funding-at-risk-for-americas-schools/.

[47] Kirksey, J. J. (2025). Weeks after the raid: The immediate and sustained changes in student attendance rates following immigration arrests. *Educational Evaluation and Policy Analysis*, *47*(4), 1219–1244. https://doi.org/10.3102/01623737241288838

ratio.[48] Average teacher salaries in California are comparable to New York, which means its relatively low student-to-teacher ratio likely reflects New York spending significantly more per K-12 student.[49]

California's high student-to-staff ratios reflect the amount of funding it provides for TK-12 education, which is affected by the state's constitutional constraints. These constraints create obstacles for the legislature to make adjustments to the revenue system that could provide more funding for TK-12 education or to support other programs. Moreover, the state's Proposition 98 constitutional obligation to provide a minimum level of funding to California's K-12 school and community colleges creates tension between providing sufficient funding for schools to support students' education and sufficient resources for programs outside of K-14 education that support students' families.

California funding for TK-12 education is largely determined by the state's Proposition 98 funding guarantee. Prop. 98 is a constitutional requirement to provide the state's TK-12 schools and community colleges a minimum level of annual funding, which comes from a combination of state General Fund revenue and local property taxes.[50] The Prop. 98 guarantee not only determines the minimum level the state must spend each year to support TK-14 education, but also heavily influences the amount of state funding available for non-TK-14 education programs. In fact, the annual Prop. 98 spending level is the key factor that determines the amount the state legislature spends on programs outside of TK-14 education and decisions to provide funding above Prop. 98's minimum spending obligation often require reduced levels of support for non-education programs.

Each year's Prop. 98 guarantee is calculated using a series of formulas that are based on a percentage of state General Fund revenue *or* the prior year guarantee adjusted for K-12 attendance and an inflation measure.[51] To the extent that the state legislature provides funding above Prop. 98's minimum spending obligation, it can increase the following year's Prop. 98 minimum funding level and

[48] National Center for Education Statistics. (2025). *Common Core of Data (CCD): State nonfiscal public elementary/secondary education survey, 2023-24 (Version 1a)* [Data set]. U.S. Department of Education. https://nces.ed.gov/ccd/
[49] National Education Association. (2025). *Rankings of the states 2024 and estimates of school statistics 2025.* Table B-6. https://www.nea.org/sites/default/files/2025-04/2025_rankings_and_estimates_report.pdf
[50] The legislature can suspend Prop. 98 for a single year by a two-thirds vote of each house.
[51] The inflation measure is either the percentage change in state per capita personal income for the preceding year or the annual change in per capita state General Fund revenues plus 0.5 percent.

state spending required to fulfill the Prop. 98 obligation in future years.[52] In other words, providing funding above the Prop. 98 minimum guarantee for one budget year can create ongoing state spending obligations for TK-14 education in future years. These obligations often produce pressure to reduce spending for programs outside of TK-14 education. As a result, while the Prop. 98 guarantee is technically a minimum funding level, it can function as a constraint on state spending for TK-14 education due to the tension between spending to support TK-14 education and funding available for other state budget priorities. Without sufficient state General Fund revenue, Prop. 98 can dissuade the legislature from spending above the state's minimum funding obligation as that spending can reduce resources available for state priorities outside of TK-14 education.

The interaction between the constraints on state revenues and the legislature's reluctance to provide funding above the state's constitutional spending obligation to TK-14 education produces a system that limits funding to support students. It also limits spending for programs that support students' families. One example is the state's lack of investment in child care. Due to significant reductions in revenue during the Great Recession, California cut spending for slots in the state's subsidized child care by more than one-third between 2008-09 and 2013-14. Yet, despite increasing General Fund levels since 2012-13, spending for subsidized child care slots did not return to pre-recession levels until 2021-22.[53] Moreover, the number of California children eligible for subsidized child care far exceeds enrollment. In 2024, out of an estimated 2.1 million eligible California children, 1.8 million were not enrolled in subsidized child care programs, reflecting a long-standing gap between affordable child care options and the number of families able to access them.[54] This gap reflects a lack of resources to support a critical need of families, many of whom have students enrolled in California's TK-12 public schools.

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[52] Kaplan, J. & Saucedo, E. (2024). *What is Proposition 98 and how does the state budget shortfall affect it?* California Budget & Policy Center. https://calbudgetcenter.org/resources/what-is-proposition-98-and-how-does-the-state-budget-shortfall-affect-it/

[53] Pryor, L., & Schumacher, K. (2025). *California funding trends for early care & education programs.* California Budget & Policy Center. https://calbudgetcenter.org/resources/california-funding-trends-for-early-care-education-programs/

[54] Pryor, L., & Schumacher, K. (2026). *Understanding California's 1.8 million gap in publicly funded child care.* California Budget & Policy Center. https://calbudgetcenter.org/resources/understanding-californias-1-8-million-gap-in-publicly-funded-child-care/

California's revenue constraints and its constitutional spending obligation for TK-14 education create challenges in addressing the needs of its students and families. One way to approach these challenges is to assess the state's revenue system and whether there may be ways to improve it. Identifying the principles of high-quality revenue systems is useful for making that assessment.

# Principles of High-Quality Revenue Systems

Policymakers can choose among various revenue sources to help fund public programs and services. These choices involve tradeoffs that can change over time as the economic circumstances of state and local economies shift. To assess trade-offs of different revenue sources it is useful to first identify principles of high-quality revenue systems. Key principles often identified as features of high-quality revenue systems are adequacy, reliability, fairness, neutrality, simplicity, and accountability.[55]

## Adequacy

Adequacy means providing sufficient revenue to support public programs in the short and long term. Adequate revenues also keep pace with inflation, population growth, and taxpayers' ability to pay, which requires revenue sources that grow or are sustainable over time.

## Reliability

A high-quality revenue system provides revenue to state and local governments in a reliable manner. Reliability involves stability, predictability, and sustainability. Improving reliability of revenue sources can involve broadening the base used to levy taxes. Reliability of revenue systems can be enhanced by diversifying sources of revenue and employing sources that have proven long-term records for producing predictable and adequate annual levels of revenue.

## Fairness

Fair revenue systems treat taxpayers equitably. Two important measures of equity are vertical and horizontal equity. Revenue systems that achieve vertical equity have tax rates that are highest for those with the greatest ability to pay. Conversely, regressive taxes, such as sales taxes, work against vertical equity because these taxes take a larger share of income from those with lower levels of income.

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[55] For discussion of principles of revenue systems see: Institute on Taxation and Economic Policy. (n.d.). *What principles should guide state and local tax policy?* https://itep.org/what-principles-should-guide-state-and-local-tax-policy/ ; National Conference of State Legislatures. (2010). *Tax policy handbook for state legislators* (3rd ed.). https://nebraskalegislature.gov/pdf/reports/committee/select_special/taxmod/2-13_lr155_2013.pdf; and California Budget Project. (2013). *Principles and policy: A guide to California's tax system.* https://calbudgetcenter.org/app/uploads/130411_Californias_Tax_System.pdf

Revenue systems that achieve horizontal equity require taxpayers with similar economic means to pay similar amounts of tax. For example, a revenue system that achieves horizontal equity would cause homeowners with equivalent financial means in equivalent houses to pay the same amount of property tax. California's Prop. 13 works against horizontal equity because these two similar homeowners often pay very different property tax amounts depending on the length of time that they own their home.

Neutrality

Neutral revenue systems minimize involvement in economic decisions and make any such involvement explicit. Revenue systems that are neutral avoid favoring one type of economic activity over another or causing individuals and businesses to make economic decisions based on the tax code—unless there is a very good reason to do so.[56]

Simplicity

Simplicity makes a revenue system easier for taxpayers to understand and facilitates tax compliance. Simplicity makes tax rules easier to enforce and harder to avoid, which allows for efficient and effective administration. As tax systems become more complex, they can favor those with greater economic means who can pay professionals to help them avoid taxes.

Accountability

Accountability in a revenue system provides taxpayers transparent information about how tax dollars are calculated and collected. This information should allow the public to determine whether the tax system is neutral and raises an adequate level of revenue fairly. Accountability in a tax system means taxpayers pay what they owe. Conversely, tax breaks and other special treatment provided to certain taxpayers work against accountability because they make it more difficult to determine who pays taxes.

[56] Cigarette and other so called "sin" taxes are examples of taxes that aren't neutral as they are intended to affect economic decisions.

# Assessing California's Current Revenue System

California's revenue system relies on state and local taxes and fees to finance public services. The revenue system raises funds that state and local governments allocate to TK-12 school districts for educating students across the state. More than 80% of the dollars provided to California's TK-12 school districts for their ordinary operations comes from local property taxes and the so called "Big Three" revenue sources that account for nearly all state General Fund dollars: the personal income tax, the sales and use tax, and the corporation tax. Assessing the characteristics of these revenue sources can help determine whether they collectively fulfill the principles of a high-quality system.

## The Personal Income Tax

The personal income tax (PIT) is the largest single source of California's General Fund revenue. Among California's "Big Three" revenue sources PIT revenue has increased the most over the past 50 years as a share of state General Fund revenue, proving it to be a sustainable revenue source over time.

The PIT is also the most progressive part of the state's revenue system. The PIT achieves vertical equity due to California's graduated personal income tax rate structure. California has nine personal income tax rates ranging from 1.0% to 12.3% that apply to taxpayers at progressively higher income levels with an additional 1% rate on all income earned over $1 million. The state's progressive PIT rate structure means that families with the highest incomes pay a greater share of that income in personal income taxes than Californians with less income. Moreover, progressivity of the PIT rate structure combined with high-income Californians' disproportionate share of statewide income means the highest-income Californians pay most of the state's PIT. In tax year 2023, 2.5% of California residents' tax returns had adjusted gross incomes of $500,000 or more but accounted for nearly one-third (33.2%) of statewide taxable income and almost half of California's total tax liability (48.9%).[57]

One reason high-income Californians pay most of the state's PIT is due to Proposition 30, which was approved by California voters in 2012. Prop. 30 added three personal income tax rates for the highest-income Californians: 10.3%, 11.3%, and 12.3%. These tax rates were set to expire in 2018 but

[57] California Franchise Tax Board. (2026). *PIT annual report 2024.* https://lab.data.ca.gov/dataset/pit-annual-report-2024

were extended through 2030 when voters approved Proposition 55 in 2016.[58] In 2022, Prop. 30/55 taxes generated nearly $10 billion in revenue for the state's General Fund.

The progressivity of California's personal income tax and its associated dependence on those with high incomes has a trade off—the PIT lacks reliability as a revenue source. Personal income tax collections can fluctuate over time because they tend to rise and fall as the state's economy grows and contracts. This dynamic is accentuated by high-income taxpayers receiving a disproportionately large share of their income from investments. Capital gains income from investments, which are taxed in California at the same rate as wages and salaries, fluctuate significantly based on changes in the stock market.

## California's Rainy Day Funds

To help mitigate the impact of fluctuations in General Fund revenue, California voters approved Proposition 2 in 2014. Prop. 2 amended the state Constitution to strengthen the state's Budget Stabilization Account (BSA) and establish a rainy day fund for the state's K-12 school and community college districts—the Public School System Stabilization Account (PSSSA). Prop. 2 requires the state to annually set aside 1.5% of estimated General Fund revenues. Until 2029-30, the state must transfer half of these funds into the BSA and use the other half to reduce state liabilities such as reducing unfunded liabilities associated with state-level pension plans. Starting in 2030-31, all of the annual transfer must be deposited into the BSA.

The state must set aside additional General Fund revenues for deposits to the BSA and for reducing state debts in years when personal income taxes on capital gains exceed 8% of total General Fund tax revenues. Prop. 2 requires the portion of these excess capital gains revenues that are owed to K-14 education under the state's Prop. 98 funding guarantee either be provided to schools and community colleges or, under certain conditions, deposited in the state's PSSSA.

Note: A deposit to the PSSSA may only occur if the Prop. 98 guarantee is not suspended in the fiscal year in which a deposit would be made, the Prop 98 minimum funding level is in a so-called "Test 1" year when funding is

[58] For tax year 2025 Prop. 30/55's 10.3% tax rate applies to single filers with taxable income above $371,479 or married or registered domestic partner filers with taxable income above $742,958 and its 12.3% tax rate applies to single filers with taxable income above $742,953 or married or registered domestic partner filers with taxable income above $1,485,906.

determined by a fixed percentage of General Fund revenue, or the Prop. 98 funding level is higher than in the prior fiscal year, adjusted for the percent change in attendance and the change in the cost of living. For a detailed analysis of Proposition 2, see Graves, S., & Kaplan, J. (2014). *Proposition 2: Should California prioritize paying down debt and significantly change state budget reserve policies?* California Budget & Policy Center. https://calbudgetcenter.org/app/uploads/2022/10/Prop-2-2020-IB.pdf

California's relatively large number of tax brackets, as well as other characteristics that make the state's PIT more progressive, creates other tradeoffs. The state's PIT is relatively complex and can influence economic decisions. For example, California treats capital gains as ordinary income, which improves the fairness of the state's PIT because higher-income Californians, who receive a larger share of their income from investments than those with lower incomes, pay a larger share of their income in PIT than lower-income Californians. This progressive taxation of capital gains income, however, can influence economic decisions such as the timing of realization of capital gains, which affects neutrality of the state's revenue system.

## The Sales and Use Tax

California's sales and use tax (SUT) is the second largest source of state General Fund revenue. The SUT applies to tangible goods and not to services or digital goods. California's SUT revenues lack reliability and sustainability over time in part due to the state's narrow sales tax base. California's SUT revenues weaken in economic downturns and have declined significantly as a share of the state's General Fund over the past 50 years. Since the 1980s, California consumers have reduced their spending as a share of income on taxable items. A key driver of this decline is taxable items becoming less expensive relative to nontaxable items, such as services whose costs are rising faster than those of goods.[59] As a result, California's SUT has proven to be an inadequate revenue source as it has not adapted to changes in California consumer spending and the state's economy.

In addition to being inadequate, the SUT is regressive because low- and middle-income families pay a larger share of their incomes in sales taxes than higher-income families. Moreover, California's

[59] Taylor, M. (2013). *Why have sales taxes grown slower than the economy?* Legislative Analyst's Office. https://www.lao.ca.gov/reports/2013/tax/sales-tax/sales-tax-080513.pdf

SUT is not neutral because it favors different types of economic activity. For example, California's taxation of tangible, but not digital, goods means purchasing a vinyl record album is taxed but buying music digitally through online providers is not. The need to distinguish tangible and intangible goods and the variety of exemptions that apply to the SUT increases complexity and reduces transparency of the tax code.

## The Corporation Tax

California's corporation tax (CT) is the third largest source of state General Fund revenue.[60] CT revenues are neither adequate nor reliable. Over the past 50 years CT revenues as a share of the state's General Fund have both declined and fluctuated. As a share of state General Fund revenues, the CT declined from 14.9% in 1974-75 to 8.3% in 2001-02 and comprised 10.9% in 2024-25. Annual growth of CT revenues also changes significantly year to year making them unstable and unpredictable.

In addition to being inadequate and unreliable, the CT is not equitable. The CT lacks equity because all corporations that earn profits in California are subject to the same tax rate regardless of their profit levels. California's CT lacks graduated tax rates even though a small share of highly profitable corporations accounts for a majority of profits. In 2023, less than 0.3% of all corporations with at least $10 million in California profits received more than 60% of the total profits in the state.[61]

The CT's lack of fairness is accentuated by provisions that work against neutrality. Tax expenditures are key factors that contribute to the CT's lack of neutrality because they generally favor certain types of economic activity. The two largest tax expenditures California provides to corporations are the water's edge election and the state's Research and Development Tax Credit, which disproportionately benefit large corporations and cost the state General Fund billions of dollars each year.

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[60] The corporation tax is comprised of three separate taxes the corporate franchise tax, corporate income tax, and bank tax. Most corporation tax revenue comes from the corporate franchise tax while the corporate income tax is paid by businesses which do not have sufficient presence or activity in the state for franchise tax purposes; Very few corporate taxpayers file under the corporate income tax. The bank tax is paid by banks and financial institutions in lieu of paying property taxes and local business taxes.

[61] California Franchise Tax Board. (2026). *CORP annual report 2024*. Table C-8. https://lab.data.ca.gov/dataset/corp-annual-report-2024

The water's edge election benefits multinational corporations by allowing them to choose a method for reporting their income that results in lower tax liability, which is estimated to cost the state General Fund $4.5 billion in 2025-26.[62] The water's edge election is only available to multinational corporations, which puts smaller domestic businesses that are not able to take advantage of this tax break at a competitive disadvantage. Because this tax expenditure allows corporations to file their taxes using either the water's edge election or the worldwide combined reporting method it encourages corporations with significant offshore profits to shift those profits to foreign jurisdictions with low tax rates and avoid state taxes. Alternatively, if corporations have foreign losses they can use the worldwide combined reporting method to combine those losses with domestic profits to reduce their tax liability. Allowing corporations to choose the tax filing method that lowers their tax bill not only reduces adequacy of the CT, it works against the principle of simplicity.

The Research and Development Tax Credit provides tax credits for businesses engaged in "qualified research" activities and is projected to cost the state General Fund more than $1.5 billion in 2025-26.[63] While available to any business entity in California, 90% of total spending for corporations on California's Research and Development Tax Credit went to those with gross receipts of more than $1 billion in 2022, even though these corporations made up only 9% of those receiving the credit.[64]

In addition to working against neutrality, tax expenditures create greater complexity in the state's tax code. This complexity favors business entities with greater economic means and makes it harder for the public to determine whether the state's tax system is neutral and raising revenue fairly. In a 2003 review of the effectiveness of the state's Research and Development Tax Credit, the California Legislative Analyst recommended that the "Legislature consider reducing the credit or phasing it out over time."[65]

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[62] California Department of Finance. (2025). *Tax expenditure report 2025-26.* https://dof.ca.gov/media/docs/forecasting/revenue-and-taxation/tax-expenditure-reports/2025-26-Tax-Expenditure-Report.pdf

[63] California Department of Finance. (2025). *Tax expenditure report 2025-26.* https://dof.ca.gov/media/docs/forecasting/revenue-and-taxation/tax-expenditure-reports/2025-26-Tax-Expenditure-Report.pdf

[64] California Department of Finance. (2025). *Tax expenditure report 2025-26.* https://dof.ca.gov/media/docs/forecasting/revenue-and-taxation/tax-expenditure-reports/2025-26-Tax-Expenditure-Report.pdf

[65] Legislative Analyst's Office. (2003). *An overview of California's research and development tax credit.* https://lao.ca.gov/2003/randd_credit/113003_research_development.html

## Local Property Taxes

Local property taxes are a critical component of California's revenue system that provide funding for various local governments including cities, counties, and TK-12 school districts. Local property taxes not only provide a significant share of TK-12 school district funding, they are often a key factor in determining the amount the state General Fund must provide to TK-12 school districts each year. This is because California's Proposition 98 minimum funding guarantee for TK-12 school and community college districts is fulfilled by a combination of state General Fund dollars and local property tax revenues. In most years, the level of local property tax revenue helps determine the amount the legislature must allocate from the state General Fund toward fulfilling the Prop. 98 guarantee.

California's local property taxes are a reliable revenue source. Prop. 13's cap on the property tax rate and limits placed on the assessed value of property make local property tax revenues predictable and stable. However, local property tax revenue in California falls short when considering fairness, adequacy, and simplicity.

Local property taxes are not equitable, either vertically or horizontally. They do not achieve vertical equity because property tax rates are the same for property owners regardless of income. As a result, California families in the lowest income quintile pay three times the share of their income in property taxes than families with incomes in the top 1%.[66] Property taxes also fail to achieve horizontal equity because property owners with similar economic means who own similar properties pay different amounts of property tax depending on the property's taxable value. Under Prop. 13, a property's taxable value is based on the property's purchase price and not its market value. Because Prop. 13 limits annual increases in reassessments of the taxable value of property to 2% per year, and the market value of property typically increases by more than 2% annually, a longstanding owner of a property will pay lower property taxes than a recent home buyer of a similar property which has a taxable value equal to the price for which it was purchased. Moreover, Prop. 13's 2% cap on increases to annual property reassessments has meant the growth in local property tax revenues have not kept pace with the increasing market value of property over time. And, while transfers in residential

[66] Institute on Taxation and Economic Policy. (2024). *Who pays? A distributional analysis of the tax systems in all 50 states* (7th ed.). https://itep.org/whopays-7th-edition/

ownership typically trigger increases in assessed value, ownership changes of commercial property can be structured in complex ways that avoid reassessment, restricting the growth and adequacy of local property taxes and making them difficult to administer.

# Options for Improving California's Revenue System

Despite numerous constraints limiting state and local governments, California policymakers have options for raising additional revenue and improving its revenue system. To assess these options, examining the characteristics of revenue sources and their trade-offs offer a useful framework for policymakers.

## Personal Income Taxes

California's personal income taxes raise the largest single source of revenue for the state's General Fund. The graduated rate structure of the state's PIT improves equity of the state tax code by raising a disproportionate amount of revenue from those with high incomes. The trade-off for increasing PIT revenue from progressive tax rates is reliability due to year-to-year fluctuations in the state's economy and the gains of taxpayers with high incomes.

*Personal Income Tax Rates*

A significant amount of PIT revenues is generated by three tax rates created when voters approved Proposition 30 in 2012. These rates were set to expire in 2018, but were extended through the end of 2030 by voter approval of Proposition 55 in 2016. Prop 30/55 taxes generated $9.2 billion in General Fund revenue in 2023. California policymakers have the option to extend Prop 30/55 tax rates beyond 2030, but doing so would require a two-thirds vote of each house of the legislature and the Governor's approval. State voters may also have the option to approve extension of Prop. 30/55 tax rates through a proposed ballot measure. The trade-off for extending Prop. 30/55 tax rates would be the state General Fund's continued reliance on a revenue source that fluctuates from year to year.

Other options for increasing revenue from the PIT include:

- **Estate and Inheritance Taxes**—In 1982, California repealed the state's inheritance tax, which taxes recipients of property transferred from deceased persons. In contrast, an estate tax is a tax on property transferred from deceased persons to their heirs. As of 2025, sixteen states and Washington, DC have either an inheritance or an estate tax, which typically include exemptions for the portion of property below certain values.[67] For example, the federal estate tax exempts the first $15 million of property for individuals and $30 million for married couples. California policymakers could reinstitute the state's inheritance tax or establish an estate tax, which would generate additional revenue and likely improve tax equity. A potential trade-off of estate and inheritance taxes would be reducing neutrality of the tax code, to the extent they influence economic decisions of those affected.
- **Tax Benefit Recapture**—California's graduated-rate income tax system requires high-income taxpayers to pay increasing tax rates only on the portion of their income that falls within each tax bracket. Tax benefit recapture requires high-income earners to pay at the highest tax rate on *all* their income above the tax bracket for which their income falls. New York and Connecticut use tax benefit recapture to generate revenue from their state taxpayers.[68] California policymakers could use tax benefit recapture to improve adequacy of the PIT and fairness of the state's tax code, but the trade-off could be reducing revenue reliability to the extent it increases dependence on high-income taxpayers whose income can vary from year to year.
- **Tax expenditures**—California's PIT includes several tax expenditures that reduce revenue for the state's General Fund. For example, the state excludes appreciation of the value of property that occurs prior to a decedent's death from capital gains taxation. California's General Fund will lose an estimated $4.9 billion in 2025-26 because the state levies capital gains taxes only on the stepped-up basis of inherited property.[69] Prior to the repeal of the state's inheritance tax, some argued that

[67] Loughead, K. (2025). *Estate and inheritance taxes by state, 2025.* Tax Foundation. Retrieved February 27, 2026, from https://taxfoundation.org/data/all/state/estate-inheritance-taxes/. Pennsylvania is the only state without an exemption for its inheritance tax.

[68] Center on Budget and Policy Priorities. (2024). S*tate and local revenue options for advancing a brighter future***.** Retrieved February 19, 2026, from https://www.cbpp.org/research/state-budget-and-tax/state-revenue-options-for-advancing-equity-and-prosperity#/groups/1

[69] California Department of Finance. (2025). *Tax expenditure report 2025-26.* https://dof.ca.gov/media/docs/forecasting/revenue-and-taxation/tax-expenditure-reports/2025-26-Tax-Expenditure-Report.pdf

taxing capital gains without a stepped-up basis would constitute double taxation. However, this argument no longer applied after California removed its taxes on inherited property in 1982. If the state eliminates the stepped-up basis for taxation of inherited property, it would improve adequacy of the PIT as well as equity in the state's tax code. A trade-off would be increasing the tax code's complexity as the federal government taxes capital gains on a stepped-up basis.

California's PIT also excludes up to $500,000 in income received from capital gains on the sale of a principal residence.[70] California's General Fund will lose an estimated $4.4 billion in revenue in 2025-26 due to exclusion of these capital gains.[71] Eliminating this tax expenditure would increase General Fund revenue and the adequacy of the PIT. Moreover, taxing capital gains from the sale of a residence could improve housing affordability as most economists believe housing prices are increased by the value of the tax break.[72] However, some homeowners would choose to stay in their original house if they had to pay capital gains on the sale of their first house, which would reduce neutrality of the tax code. Eliminating this tax expenditure would also increase complexity because the state tax code would no longer conform with the federal tax code's exclusion of capital gains on the sale of a principal residence.

## Sales and Use Taxes

California's sales and use taxes generate significant levels of revenue for state and local governments. However, by several measures they fall short of helping the state achieve a high-quality revenue system.

In addition to lacking reliability and neutrality, California sales and use taxes are regressive—working against the equity and fairness of the state's tax code. Moreover, the state's portion of sales and use taxes as a share of state General Fund revenue has declined over the past 50 years. The

[70] The capital gains exclusion for the sale of property that has been used as a principal residence in two of the previous five years is up to $250,000 for single filers and up to $500,000 for joint filers.
[71] California Department of Finance. (2025). *Tax expenditure report 2025-26.* https://dof.ca.gov/media/docs/forecasting/revenue-and-taxation/tax-expenditure-reports/2025-26-Tax-Expenditure-Report.pdf
[72] California Franchise Tax Board. (2019). *California income tax expenditures: compendium of individual provisions, report for 2019 tax year data*. https://arev.assembly.ca.gov/sites/arev.assembly.ca.gov/files/FTB%20TE%20Report%202019%20Data.pdf

inadequacy of the sales and use tax as a revenue source reflects a foundational constraint: California's sales tax is limited to the sale of tangible personal property. Since the 1980s, California consumers have reduced spending on taxable goods and increased spending on the sale of services as a share of their income. California's failure to adapt the sales and use tax to changes in California consumer spending and the state's economy is one reason sales and use taxes as a share of state General Fund revenues have fallen by roughly half over the past 50 years.

Options for improving California's sales and use taxes include:

*Extending Sales Tax to Services*

One option for increasing revenues from the sales tax would be to extend it to the sale of services. For example, a 2015 California Board of Equalization analysis of the extension of the sales tax to non-taxable services estimated $122.6 billion in revenue, at that time, could be generated for state and local governments.[73]

Depending on its structure, extending the sales tax to services could improve sustainability, stability, and equity of the sales tax but there would also likely be trade-offs. For example, taxing business-to-business sales would produce so-called "tax pyramiding," which occurs when a tax is imposed on a good or service purchased by a business that passes the cost of that input into a final product that is also subject to the sales tax. Tax pyramiding can reduce neutrality by creating incentives for a business to produce goods or services "in house using its own employees (whose services to the employer are nearly always exempt from sales tax), even when an independent producer can provide the good or service more efficiently."[74] Tax pyramiding can also lead to administration challenges, reducing sales tax simplicity.

[73] The California Board of Equalization applied a statewide average sales tax rate of 8.42% to total receipts of $1.456 trillion for all "currently non-taxable services" to calculate the $122.6 billion revenue estimate, which included $3.6 billion from Proposition 30's temporary 0.25% sales tax that expired at the end of 2016. California Board of Equalization. (2015, April 14). *Estimate of potential revenue to be derived from taxation of currently non-taxable services.*

[74] Mazerov, M. (2009). *Expanding sales taxation of services: Options and issues.* p. 26. Center on Budget and Policy Priorities. https://www.cbpp.org/sites/default/files/atoms/files/8-10-09sfp.pdf

*Taxing Digital Sales*

California's sales and use tax favors digital economic activity because it taxes tangible, but not digital, goods. In addition to this lack of neutrality, the sales and use tax fails to capture revenue from a significant and growing segment of the economy. There are several options policymakers may consider for generating revenue from digital platforms, including taxes on general advertising, data mining, digital services, and digital sales. Many of these options face potential legal challenges related to the federal Internet Tax Freedom Act (ITFA) or the Commerce Clause of the U.S. Constitution. However, "generally, digital sales taxes do not face significant ITFA challenges because they do not even theoretically discriminate against digital products: all products are subject to the sales tax."[75]

Taxing digital sales includes taxation of electronically delivered products such as in-app purchases, downloaded software, and online subscriptions. According to a 2024 report from the University of California, Los Angeles, half of states in the U.S. levy some form of sales tax on digital products with tax rates ranging from 1% to 7%. The report estimated that California could have raised more than $700 million in 2023 with a 1% tax rate on the sale of digital goods.[76]

While taxing the sale of digital products would increase revenue and improve neutrality of the state's tax code, a trade-off could be making the state's tax code more regressive to the extent that lower-income Californians pay a larger share of their income in digital sales taxes than those with higher incomes.

## Corporation Taxes

California's corporation tax fails to help the state achieve a high-quality revenue system by several measures. Despite significant increases in corporate profits over the past four decades, the

[75] Zornetta, A., & Ash, T. (2024). *Shearing the sheep without skinning it: Policy options for extracting revenue from online platforms.* UCLA Institute for Technology, Law, & Policy. https://itlp.law.ucla.edu/wp-content/uploads/2024/10/UCLA_ITLP_Shearing_The_Sheep.pdf

[76] Zornetta, A., & Ash, T. (2024). *Shearing the sheep without skinning it: Policy options for extracting revenue from online platforms.* UCLA Institute for Technology, Law, & Policy. https://itlp.law.ucla.edu/wp-content/uploads/2024/10/UCLA_ITLP_Shearing_The_Sheep.pdf. The report states that "there is considerable uncertainty regarding the total size of the market for digital goods. Using the economic activity approach described for digital services, we estimate a very approximate size of the California digital goods market as $71bn for 2023. A 1% tax on this market would then yield $707mn in revenue per year."

share of those profits paid in state taxes has declined in part due to tax rate reductions and tax expenditures approved by state policymakers.[77] In addition to lacking adequacy, the corporation tax also has fluctuated over time, is not equitable, and works against neutrality of the state's tax code. Policymakers have several options for addressing these problems and improving California's corporation tax.

*Establishing Graduated Corporation Tax Rates*

A small share of corporations generate a large share of corporate income in California. One out of every 200 of the largest "C" corporations (0.5%) made $10 million or more in annual profits in California in 2023, yet this small share of corporations accounted for more than 85% of corporate profits statewide.[78]

Policymakers could increase state tax revenue and improve fairness of the corporation tax by levying additional taxes on the small share of profitable corporations that generate the majority of corporate income in California. To achieve this, policymakers could establish graduated tax rates that increase at specific income levels as do 12 other states.[79] In 2023, Democrats in the California State Senate proposed increasing the state's 8.84% tax rate for C corporations to 10.99%, which they estimated would raise approximately $6 billion in ongoing revenue for the state's General Fund.

Trade-offs for implementing graduated corporation tax rates would include reducing simplicity of the current flat corporation tax rate. Moreover, to the extent that California continues to allow corporations to use the water's edge election it will be difficult to prevent multinational corporations from avoiding tax liability due to increases in the corporate tax rate.

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[77] Kaplan, J. (2023). *Corporations pay far less of their California income in state taxes than a generation ago.* California Budget & Policy Center. https://calbudgetcenter.org/resources/corporations-pay-far-less-of-their-california-income-in-state-taxes-than-a-generation-ago-2/

[78] California Franchise Tax Board. (2026). *CORP annual report 2024*. Table C-8A. https://lab.data.ca.gov/dataset/corp-annual-report-2024

[79] The 12 states that levy corporate income taxes using graduated rates are Alaska, Arkansas, Hawaii, Iowa, Kansas, Maine, Mississippi, New Jersey, New York, North Dakota, Oregon, and Vermont. See Mandal, A. (2026). *State corporate income tax rates and brackets, 2026.* Tax Foundation. Retrieved February 19, 2026, from https://taxfoundation.org/data/all/state/state-corporate-income-tax-rates-brackets/

*Tax Expenditures*

The California legislature could improve the adequacy, equity, and neutrality of the state's tax code by removing or scaling back the state's corporate tax expenditures. California is projected to spend $6 billion in 2025-26 on the state's two largest corporate tax expenditures, the water's edge election and the Research and Development Tax Credit. These tax credits hamper the adequacy of the state's corporation tax and, because they disproportionately benefit large corporations, work against equity of the state's tax code. Removing the water's edge election and requiring corporations to file taxes using the worldwide combined reporting method would not only improve equity, but also neutrality.

To improve accountability, the legislature could also require periodic review of tax expenditures to assess whether they are achieving their objectives and establish sunset dates for those that are not.

## Property Taxes

California's property tax system is constrained by constitutional provisions enacted in 1978 when state voters approved Proposition 13. Several of these provisions have limited state and local government from tapping the state's property wealth and hampered the adequacy of property taxes. Other provisions of Prop. 13, such as those that tax property based on its assessed value rather than its market value, create a property tax system that is inequitable and lacks neutrality. Moreover, interactions between Prop. 13's local property tax provisions and the state's education finance system have led to growing funding inequities for certain TK-12 school districts.

*Commercial and Industrial Property Taxes*

Prop. 13's property tax provisions, including those related to annual property assessments for tax purposes, apply to commercial and industrial property in addition to residential property. A 2020 ballot measure, Proposition 15, proposed taxing some commercial and industrial property based on market value as opposed to its assessed value and allocating the proceeds to local governments including TK-12 school districts. The state's Legislative Analyst estimated the measure would have raised between

$6.5 billion and $11.5 billion annually, but California voters rejected it.[80] Prop. 15 included a trade-off for its boost to revenue. Had voters approved Prop. 15, it would have increased the complexity of the property tax because the measure would have required local assessors to determine the market value of commercial properties, which would have created challenges for effective administration of the property tax.

Another option for improving adequacy of California's property tax would be to establish a statewide property tax rate and use it to increase commercial and industrial property taxes. An estimate of the taxable value of county-assessed commercial and industrial properties statewide in fiscal year 2024-25 was $1.86 trillion.[81] If California were to establish a statewide property tax rate on the taxable value of all commercial and industrial property it could raise a net total of approximately $9.3 billion for each 0.5% increment of property tax the state levies. A trade-off for taxing commercial and industrial property at a flat rate would be perpetuating current inequities that exist due to taxation of property based on assessed value rather than market value. A way to mitigate these inequities is to address provisions in the tax code that allow commercial and industrial properties to avoid reassessment even after change of ownership. Without addressing these provisions, current tax code complexities that incentivize avoidance of commercial and industrial property reassessments will persist.

*Local Property Tax Revenue and K-12 Funding Equity*

The inequity of California's lowest-income families paying a greater share of their income in property taxes than those with higher incomes is coupled with another inequity in the state's TK-12 education finance system. California's property taxes are collected and distributed by the state's 58 counties to local governments, including TK-12 school districts. Under the state's TK-12 education Local Control Funding Formula (LCFF), the state legislature establishes a funding target that is fulfilled by a combination of local property tax and state General Fund revenue.[82] Most school districts are unable to

[80] Legislative Analyst's Office. (2020). *Proposition 15. Increases funding sources for public schools, community colleges, and local government services by changing tax assessment of commercial and industrial property. Initiative constitutional amendment.* https://lao.ca.gov/ballot/2020/Prop15-110320.pdf

[81] University of Southern California Equity Research Institute analysis of CoreLogic real property data, which excludes state-assessed properties.

[82] For a description of the Local Control Funding Formula, see Bruno, P. (Forthcoming). *District Dollars 3: Recent patterns in California school district finances, trends in teacher compensation, and within-district, between-school spending*. Getting Down to Facts III.

meet this funding target with local property taxes alone. If a school district's property tax revenue does not fulfill its LCFF target, the state provides the marginal dollar to reach the amount it is entitled to receive under the LCFF. This portion of the LCFF formula applies to a large majority of the state's TK-12 school districts and embodies the equity principles of the state's *Serrano v. Priest* Supreme Court decisions. However, school districts that receive more local property tax revenue than their LCFF targets keep the excess revenue, which is why they are sometimes called "excess tax" districts. Despite receiving more local property tax revenue than their LCFF targets, these school districts are also often called "basic aid" because the LCFF requires that they receive a minimum amount of state aid.

The Getting Down to Facts "District Dollars 3" report found that in 2024-25, on average, basic aid districts generated 3.8 times more local property tax revenue toward their LCFF funding targets per average daily attendance than non-basic aid districts—a difference of more than $14,000 per student.[83] Another report found that in 2023-24, California's basic aid districts generated $1.3 billion in local property tax revenue above their LCFF entitlements statewide.[84] To address the funding disparity caused by local property tax revenue surpassing LCFF entitlements in basic aid school districts, California could look to other states as models for adjusting local property taxes and the state's TK-12 school finance formula. For example, New York and New Jersey have among the most progressive revenue systems in the nation and both states' K-12 education finance formulas include school districts' local property values and residents' incomes as factors that determine expected local contributions to school funding.[85] Generally, school districts with high property values and incomes in New York and New Jersey are expected to contribute more local property tax revenue to local school district funding than districts with lower property values and incomes. These formulas have meant New York and New Jersey consistently rank in the top 10 states in the nation with regard to both their funding per K-12 student and their effort to support TK-12 education relative to their state's economic activity.

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[83] Bruno, P. (Forthcoming). *District Dollars 3: Recent patterns in California school district finances, trends in teacher compensation, and within-district, between-school spending*. Getting Down to Facts III.

[84] Hahnel, C., Zamarripa, S., & Gallagher, H. A. (2025). *Excess revenue, unequal opportunity: Revisiting basic aid in the LCFF era*. Policy Analysis for California Education and Bellwether. https://edpolicyinca.org/publications/excess-revenue-unequal-opportunity

[85] For rankings of states' revenue systems' tax inequality, see Institute on Taxation and Economic Policy. (2024). *Who pays? A distributional analysis of the tax systems in all 50 states* (7th ed.). https://itep.org/whopays-7th-edition/

While New York and New Jersey have high levels of funding for TK-12 schools, their school finance formulas do not distribute funding as equitably as the California. Despite caps on property tax rates in New York and New Jersey both states have exceptions that allow school districts with high property values to raise more local property tax revenue than their expected contributions. As a result, high-poverty school districts in New York received just 5% more funding per pupil than low-poverty school districts and New Jersey's high-poverty districts just 1% more. In contrast, high-poverty school districts in California received 42% more funding per pupil than low-poverty school districts, based on an analysis of 2022-23 data by Education Law Center.[86]

To the extent California policymakers look to local property taxes to make adjustments to the state's revenue and TK-12 education finance systems they would need to abide by the state Supreme Court's *Serrano v. Priest* decisions and avoid school funding disparities based on property wealth. One option for doing so would be to employ equalization formulas that recapture property tax revenue from school districts that receive local property taxes in excess of their LCFF entitlements and redistribute that revenue to school districts with less property wealth.[87] Such equalization formulas could be employed in ways that do not increase taxes, but to the extent adjustments to the revenue system result in any taxpayer paying additional taxes they would require approval by two-thirds of each house of the state legislature to overcome constraints placed in the constitution by Proposition 13 (1978) and Proposition 26 (2010).

[86] Farrie, D., & Kim, R. (2025). *Making the grade: How fair is school funding in your state?* Education Law Center. https://edlawcenter.org/wp-content/uploads/2025/12/Making-the-Grade-2025.pdf

[87] Redistributing property tax revenue from one county to another would require amending the state constitution and changing state law. Notably, AB 65 (1977) included an equalization formula that would have recaptured and redistributed local property taxes, but was later overridden by Prop. 13. For a detailed discussion of AB65 see Mockler, J.B., & Hayward, G. (1978). School finance in California: Pre-Serrano to the present**.** *Journal of Education Finance*, 3(4), 386–401. http://www.jstor.org/stable/40703153

# Summary

Choices made by California policymakers and voters have created many constraints that limit state and local government revenues. These constraints have influenced the development of the state's education finance system and led TK-12 school districts' funding to depend heavily on state tax revenues. Revenue constraints have also contributed to the increasing reliance of the state General Fund on personal income tax revenue. While California's personal income taxes are progressive, they lack stability, causing uncertainty for TK-12 school funding due to fluctuations in the incomes of the state's wealthiest taxpayers. Despite significant increases in state General Fund revenues and funding for TK-12 education over the past decade, California continues to lag the nation's top ranked states with respect to TK-12 funding per student and the state's fiscal effort to support school districts relative to its economic capacity.

Among the key factors that have hindered California's ability to reach the level of support for education of the nation's top ranked states are the revenue constraints created by Proposition 13. For nearly 50 years Prop. 13's limits on property tax rates and the taxable value of property have severely constrained K-12 school districts' ability to raise revenue. These constraints, which apply to commercial and industrial, as well as residential, property, have forced state and local governments to seek other revenue sources to support public education and other essential programs and services. Prop. 13, coupled with subsequent constitutional amendments and state legislation, has also constrained the state legislature's ability to approve tax measures. These constraints have hampered the legislature's ability to manage state revenues amidst year-to-year fluctuations in economic activity and have made it difficult to adapt the state's revenue system to broader structural changes in California's economy.

Policy changes that affect state or local revenue can be difficult to enact, but California policymakers and voters have demonstrated their ability to make improvements to the state's revenue and TK-12 finance systems. For example, state voters approved Proposition 30's tax increases in 2012 to avoid significant cuts to education funding and policymakers established the LCFF in 2013, which fundamentally restructured the state's K-12 education finance system. As California's economy continues to evolve, state leaders should seek additional opportunities to improve its revenue system. This report has identified several options for making improvements, including those employed by other

states. As the 4th largest economy in the world, California has abundant resources that can be tapped to achieve the state's policy goals. Overcoming state and local revenue constraints will be essential to adequately and reliably support California's TK-12 schools and fulfill the promise of the state's students.

# Appendix A: Data and Methodology

Throughout this report, we rely on several external data sources. In this appendix, we describe each source and how we used the source to support our claims.

**TK-12 Education Revenue Rankings**

We use data from Education Law Center (ELC) to make comparisons among states' TK-12 education revenues. ELC analyzes the condition of states' school finance systems using three indicators: funding effort, funding level, and funding distribution. In 2010, ELC published the first edition of these analyses – "Is school funding fair: A national report card."[88] Beginning with their 2019 "Making the Grade" publication, which analyzed data from the 2016-17 school year, ELC changed the method used for their effort index calculation.[89] We received personal communication from ELC with comparable data for their effort index rankings for all school years in this report. For more information about the methods ELC uses in their analyses see the technical appendices of their "Is School Funding Fair" and "Making the Grade" publications.

**State General Fund Revenue**

To analyze California's state General Fund revenues, we primarily draw from two data sources: (1) Legislative Analyst's Office (LAO) for fiscal years 1974-75 through 2021-22, which provides historical data,[90] and (2) the state's Department of Finance's (DOF) for fiscal years 2022-23, 2023-24, and 2024-25.[91] Our analyses of state General Fund revenues exclude loans and transfers, which include non-tax transactions between state funds, such as between state special funds and the General Fund.

The LAO notes that due to "many changes over the years (including, but not limited to, changes in the sources of funding for certain state programs, deferrals of scheduled payments and tax collections, and other accounting changes)" its historical data may not provide sufficient information to evaluate trends

[88] Baker, B.D. (2010). *Is school funding fair? A national report card.* Education Law Center. https://edlawcenter.org/assets/files/pdfs/publications/National_Report_Card.pdf

[89] Farrie, D., Kim, R. & Sciarra, D.G. (2019). *Making the grade: How fair is school funding in your state?* Education Law Center. https://edlawcenter.org/wp-content/uploads/2025/12/Making-the-Grade-2025.pdf

[90] The historical data we accessed from the Legislative Analyst Office's was last updated in August 2025. See Legislative Analyst's Office. (2025). *State of California revenues archive, 1950-51 to 2015-16* and *State of California revenues, 2016-17 to 2025-26*. [Data set]. https://lao.ca.gov/policyareas/state-budget/historical-data

[91] California Department of Finance. (2026). *Schedule 8 at 2026-27 governor's budget: Comparative statement of revenues.* https://ebudget.ca.gov/2026-27/pdf/BudgetSummary/BS_SCH8.pdf

in state revenues and advises consulting other sources when conducting these analyses. In addition to consulting other sources for our analysis of state General Fund revenues, we communicated with the LAO to make corrections to errors in their State of California Revenues datasets.

Among our consultations with sources, we communicated with the DOF about adjustments we made to personal income tax and corporation tax revenues in fiscal years 2021-22 through 2024-25. These adjustments reflect tax credits related to the Pass-Through-Entity-Elective Tax (PTET), which was established in 2021. The DOF explains that "Under the PTET, payments are made by pass-through businesses under the corporation tax, increasing corporate tax revenue, while corresponding PTET credits are used by individuals under the personal income tax reducing personal income tax revenue."[92] To adjust for the distortionary impact of the PTET, we used information from the DOF's Comparative Yield of State Taxes to back out the impact of the PTET from corporate tax revenue and include corresponding personal income tax revenue for tax credits related to the PTET.[93]

Our analysis did not adjust state sales and use tax revenue related to the realignments of 1991 and 2011 that transferred fiscal and programmatic responsibility for several public services from the state to California's 58 counties. To help pay for these services, counties receive dedicated revenues to support their costs instead of state General Fund dollars. Part of these dedicated revenues comes from a shift in state sales taxes from the state's General Fund to special funds that flow to counties.[94]

The shift in sales tax revenues associated with the 1991 realignment contributed to a decrease in state sales tax revenue as a share of General Fund revenue from 37.4% to 35.1% between 1992-93 and 1993-94. More significantly, the shift in sales tax revenues associated with the 2011 realignment contributed to a drop in state sales tax revenue as a share of General Fund revenue from 29.3% in 2010-11 to 21.9% in 2011-12. The reduction in state sales tax revenues related to these realignments

[92] California Department of Finance. (2026). *Governor's budget summary 2026-27.* p. 178. https://ebudget.ca.gov/2026-27/pdf/BudgetSummary/FullBudgetSummary.pdf
[93] California Department of Finance. (2026). *Schedule 3 at 2026-27 governor's budget: Comparative yield of state taxes, 1970-71 through 2026-27*. https://ebudget.ca.gov/2026-27/pdf/BudgetSummary/BS_SCH3.pdf
[94] For detailed analysis and discussion of the 1991 and 2011 state realignments, see Graves, S., & Nair, N. (2025). *Understanding realignment: California's shifts in state and county responsibilities.* California Budget & Policy Center. https://calbudgetcenter.org/resources/understanding-realignment-californias-shifts-in-state-and-county-responsibilities/#h-funding-to-support-realigned-services

affects total state General Fund revenue and thus the share of General Fund revenue from other sources including the personal income tax. We calculated state General Fund revenue including sales and use tax revenues from realignments and found that sales and use tax revenue was 21.1% of General Fund revenue in 2024-25 as compared with 15.4% that year without including sales and use tax revenue from realignments. Commensurately, personal income tax revenue comprised 63.2% of General Fund revenue in 2024-25 as compared with 67.5% and corporation tax revenue comprised 10.7% of General Fund revenue as compared with 10.9%.

**School Staffing Ratios**

We use data from the National Center for Education Statistics (NCES) to analyze states' school staffing ratios. These analyses use NCES total student enrollment figures, excluding enrollment in adult education programs, to calculate ratios of students to several school staffing categories including, counselors, librarians/media specialists, and teachers. The ranking of student-to-administrator ratios includes administrators for schools and local educational agencies.

# Appendix B: Federal Funding Sources and Regulations

**Federal Funding Sources and Regulations**

A variety of K-12 education programs are funded by the federal government. While funding for some K-12 education programs is mandatory, most K-12 education programs require annual appropriations from the U.S. Congress, such as:

- Title I, Part A, which is designed to provide all children an opportunity to receive a fair, equitable, and high-quality education by providing financial assistance to districts and schools that serve a larger population of children from low-income families. By providing additional resources, the program is intended to ensure that all students have access to academically enriching curriculum and meet the state's challenging academic standards. Title I, Part A is the largest of the federal programs.
- Title II, Part A, which is designed to provide supplemental activities that strengthen the quality and effectiveness of teachers, principals, and other school leaders.
- Title III, which is designed to ensure that English learner students, including immigrant children and youth, attain English language proficiency and meet the same challenging state academic standards that other students are expected to meet.
- Title IV, Part A, which is designed to increase capacity of LEAs to provide all students with access to a well-rounded education, improve conditions for student learning, and use technology to further the academic achievement and digital literacy of all students.
- Title V, Part B, which is designed to address the unique needs of rural school districts that frequently lack the personnel and resources needed to compete effectively for federal competitive grants and receive formula grant allocations in amounts too small to be effective in meeting their intended purposes.
- Subtitle VII-B of the McKinney-Vento Homeless Assistance Act, which is designed to help facilitate the enrollment, attendance, and success in school of homeless children and youth and ensure equal access to the same free, appropriate, public education provided to all other students. McKinney Vento funds can also be used to facilitate coordination and collaboration among local educational agencies (LEAs), service providers, and community agencies.

- Perkins V, which was authorized by the Strengthening Career and Technical Education for the 21st Century Act. Perkins V helps to expand opportunities for every student to explore, choose, and follow career and technical education programs of study and career pathways to earn credentials of value.
- The Individuals with Disabilities Education Act (IDEA), which provides funding to states to help make a free and appropriate public education available to eligible children with disabilities throughout the nation. IDEA ensures special education and related services for eligible children and supports early intervention services for infants and toddlers and their families.

A variety of rules and regulations established by the U.S. Congress apply to federally funded education programs. For example, the rules and regulations for Title I, Part A were originally established in 1965 by the Elementary and Secondary Education Act (ESEA) and updated in 2015 by the Every Student Succeeds Act, the most recent reauthorization of ESEA. Some of the key rules and regulations regarding Title I, Part A funds are:

- Supplement, Not Supplant. Funds must be used to provide additional services, not to replace local or state funding for regular school operations.
- Allowable Uses. Funds can support professional development, hiring extra staff (e.g., tutors and reading specialists), extended learning time (e.g., summer school and before- and after-school programs), and educational materials.
- Parent and Family Engagement. Schools must build capacity for strong family engagement, including developing a school-parent compact.
- Homeless Student Set-Aside. Schools must reserve funds to support children experiencing homelessness.
- Compliance and Monitoring Needs Assessment. Schools must conduct a comprehensive needs assessment to drive decision-making.
- Documentation. Schools must keep records demonstrating that funds are used only for eligible students or schoolwide improvements.
- Equitable Services. Title I, Part A requires services to be provided to eligible students in private schools. Failure to adhere to these requirements, such as using funds for general operational costs rather than targeted interventions, can result in audits and a requirement to repay funds.

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