Getting Down to FACTS

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Successes, Challenges, and Opportunities in California School Finance

Paul Bruno, Sawyer Burgess, Sara Hinkley, Cory Koedel, Jonathan Kaplan, Rucker C. Johnson, Austin Land, Efrain Mercado, Sean Tanner, Jeff Vincent, Jason Willis

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Introduction

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California's K-12 school finance system has undergone substantial changes over the past two decades. The Local Control Funding Formula (LCFF), adopted in 2013, shifted significant spending authority to districts, collapsing dozens of categorical programs into supplemental and concentration grants directed toward students from low-income families, English learners, and foster youth. Combined with sustained state revenue growth after the Great Recession ended, recent years have seen California school districts move from below-average funding nationwide to funding that is substantially above average nationally. Still, California's school finance system faces several significant challenges going forward alongside notable opportunities to overcome them.

This brief draws on six Getting Down to Facts III technical reports to assess California's school finance system, highlighting the gains made under LCFF, the fiscal pressures that may limit future progress, and the opportunities to continue progress.

Key Findings

1 **California's school districts have reached historically high funding levels, with important caveats.**

Growth in federal, state, and local revenues has lifted district funding to historic highs and pushed California above the national average in per-pupil spending. However, those gains look more modest when adjusted for the state's high labor costs or the size of its economy.

2 **Additional resources are benefiting students, though some inequities, data limitations, and system misalignment remain.**

Higher funding levels have improved student outcomes, and evidence suggests that preschool, transitional kindergarten, and K–12 spending reinforce one another when students experience them in sequence. At the same time, inequities remain in areas such as facilities funding, data limitations make it difficult to verify the full extent to which resources are reaching students with the greatest needs, and misaligned systems are not able to take full advantage of increased funding allocations.

3 **Cost pressures from special education and employee benefits are consuming a growing share of district budgets.**

Special education and employee benefit spending have both more than doubled since 2004–05 and now absorb a large share of district budgets. This helps explain why growth in areas such as general education spending and teacher salaries has been much slower.

4 **Constraints on revenues lead to volatility and uncertainty in California's school funding system that limit efficient investment and budgeting.**

Because districts depend heavily on state revenues tied to volatile personal income taxes, they face substantial uncertainty even when funding levels are high. Declining attendance, the pending expiration of Proposition 55, and unfunded retiree liabilities compound these risks.

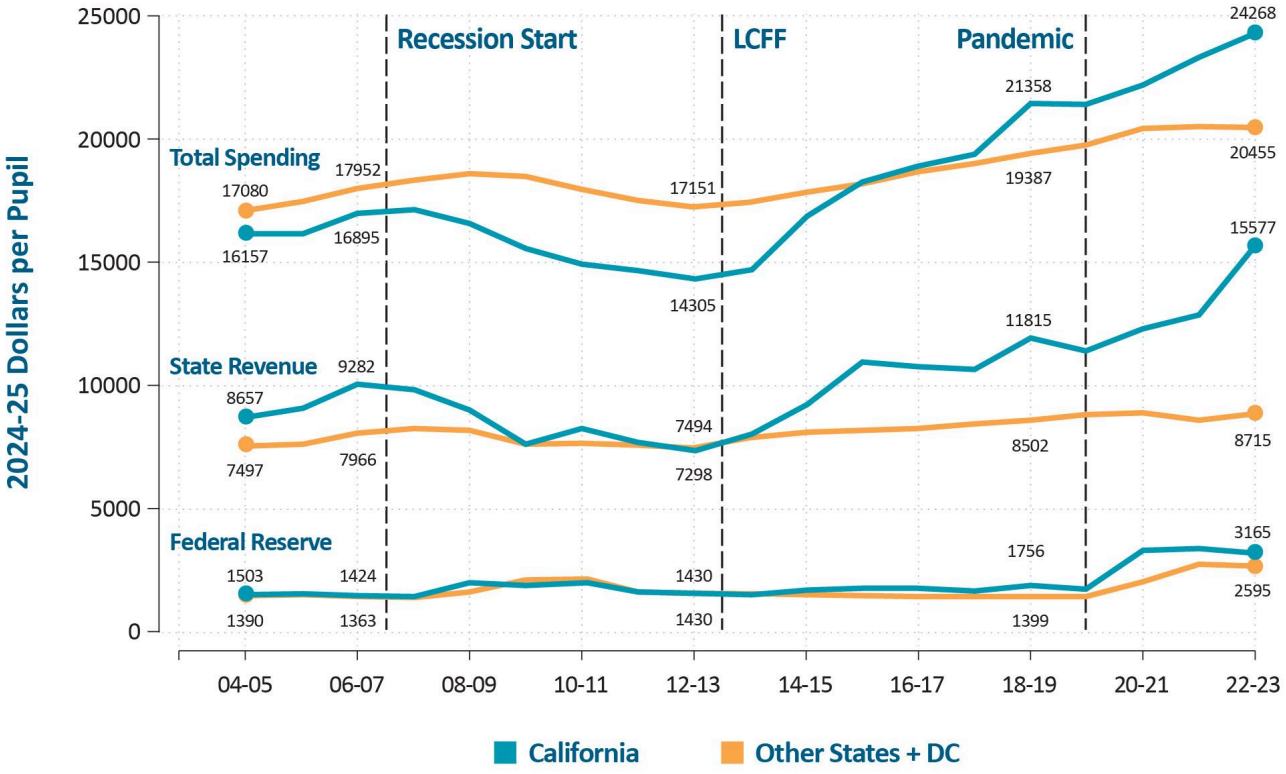
The Evidence Behind These Findings

California's school districts have reached historically high funding levels, with important caveats

California funds its schools based on average daily attendance (ADA) and, as Bruno shows, in the 2024-25 school year resources in California districts were $24,690 per ADA. Adjusting for inflation, that represented a 75 percent increase from pre-LCFF levels and a 27 percent increase since just before the pandemic.

As shown in Bruno (**Figure 1**), school spending in California has also increased faster than the national average. After years of below-average spending, particularly in the wake of the Great Recession, California now substantially exceeds the national average in terms of per-pupil spending. By 2022-23, the most recent year for which nationwide data are available, school districts in California spent, on average, 19 percent more per student than districts elsewhere in the country. Only 10 states and Washington, D.C. spent more. Most of this gain relative to other states was driven by state revenues increasing much faster in California than elsewhere. In 2012-13, just prior to LCFF, California's school districts received slightly less state revenue per pupil than districts in other states. By 2022-23, they received about 79 percent *more*.

Figure 1. Per-pupil spending, state revenue, and federal revenue in districts nationwide over time (enrollment-weighted)



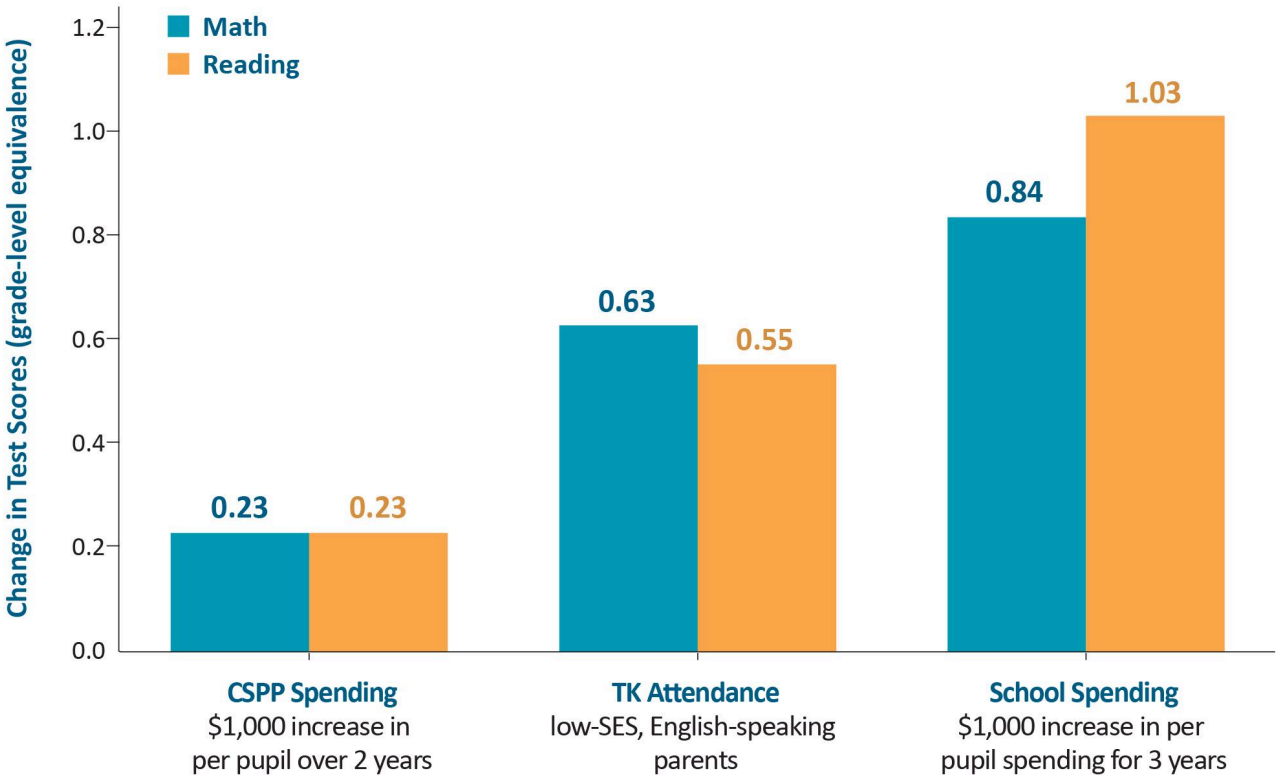
However, these comparisons come with important caveats. California has a large economy and high labor costs relative to the rest of the country. Consequently, California's school spending looks less extraordinary when accounting for those differences. For example, Kaplan and Mercado point out that 19 states have higher tax effort than California, spending more on schools as a share of their annual economic output. Similarly, Bruno shows that after adjusting for differences in labor costs, California's school funding is just about at the national average.

Additional resources are benefiting students, though some inequities, data limitations, and system misalignment remain

Johnson and Land present strong evidence that California's recent increases in educational investment have generated measurable improvements in student outcomes, especially when resources are provided in sequence across developmental stages. Using linked student-level data and quasi-experimental variation from changes in California State Preschool Program (CSPP) spending, Transitional Kindergarten (TK) eligibility, and LCFF-driven K–5 spending, they find that each of these investments improved achievement in third and fourth grade. A $1,000 increase in CSPP per-pupil spending led to nearly one-quarter of a year of additional learning in math and reading, while TK

attendance generated substantial gains for many students, especially those from low-income families. They also find that gains from TK were larger in better-resourced elementary schools and that TK attendance and LCFF-induced spending increases had positive, synergistic effects on achievement. These results suggest that additional resources benefit students not only through higher spending levels overall, but also through sustained and reinforcing investments across preschool and the elementary grades. Johnson and Land's results are summarized in **Figure 2**, which shows that CSPP spending, TK attendance, and K–5 spending each have positive effects on third- and fourth-grade achievement, and that the effects of TK are larger when students attend elementary schools with higher per-pupil spending.

Figure 2: Impacts of CSPP Spending, TK Attendance, & School Spending on 3rd & 4th Grade Achievement

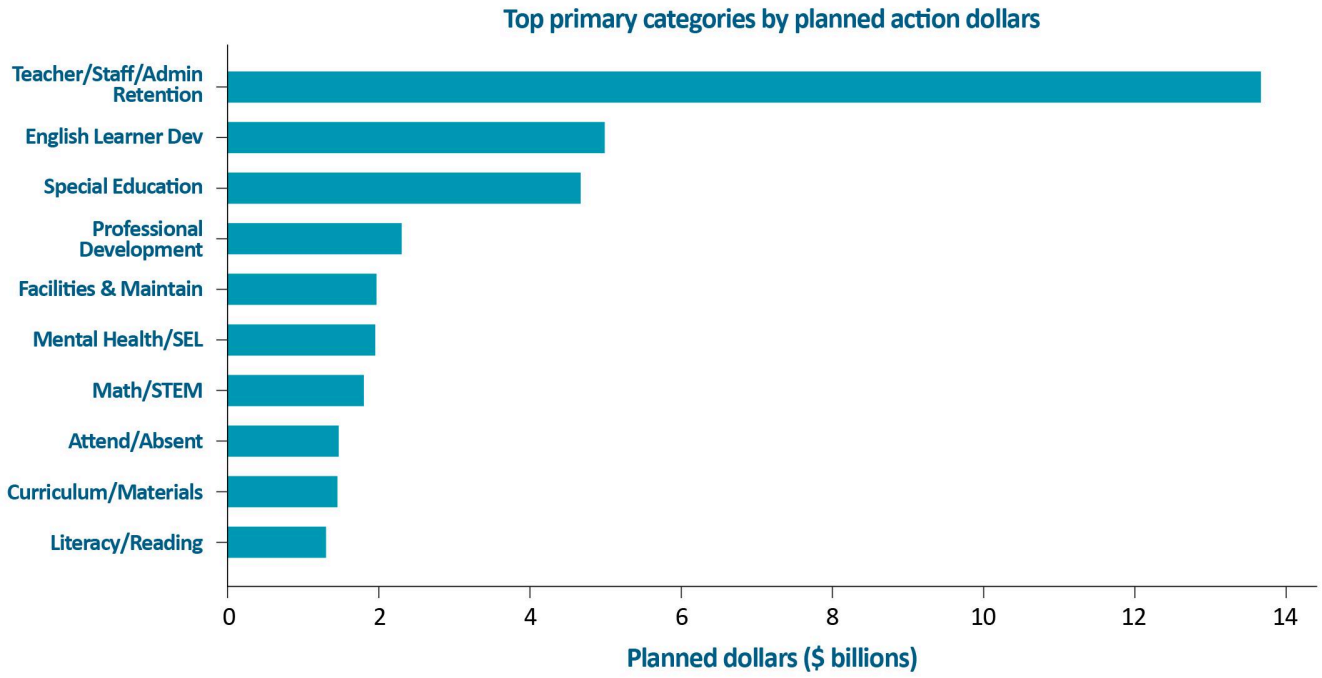


The evidence also suggests that at least some of the additional resources California has provided to districts are reaching the students LCFF was intended to prioritize. At the district level, Bruno shows that districts serving larger shares of high-need students also tend to have higher revenue and spending levels overall, particularly districts receiving LCFF concentration grants. Willis and Tanner examine the LCAPs of many of California's highest-need districts, specifically those receiving Differentiated Assistance (DA) under the state accountability system, and find that these plans frequently propose spending on activities likely to benefit LCFF-prioritized students and DA-identified

student groups, such as English Language Development and special education. Similarly, Bruno's analysis of school-level spending data indicates that, within the same district, schools serving more LCFF-targeted students spend more per pupil. Depending on how schools are compared, a school with 100 percent unduplicated pupils spends 19 to 56 percent more per pupil than a school with none, a pattern broadly consistent with LCFF's equity goals.

Willis and Tanner's analysis of LCAPs is summarized in **Figure 3**, which shows that districts frequently report planned investments in the primary categories intended to support LCFF-prioritized students, including teacher and staff retention as well as English Language Development. The figure illustrates that districts often plan to direct resources toward activities at least plausibly aligned with LCFF's equity goals. This finding is further evidenced by Willis and Tanner's analysis that districts often create action portfolios, or combinations of activities, that are explicitly targeted at the lowest performing student groups. Several frequent portfolios included combining English Learner Development and mental health actions or special education and counseling/social work actions.

Figure 3. Total Planned Funds by Primary Action Category

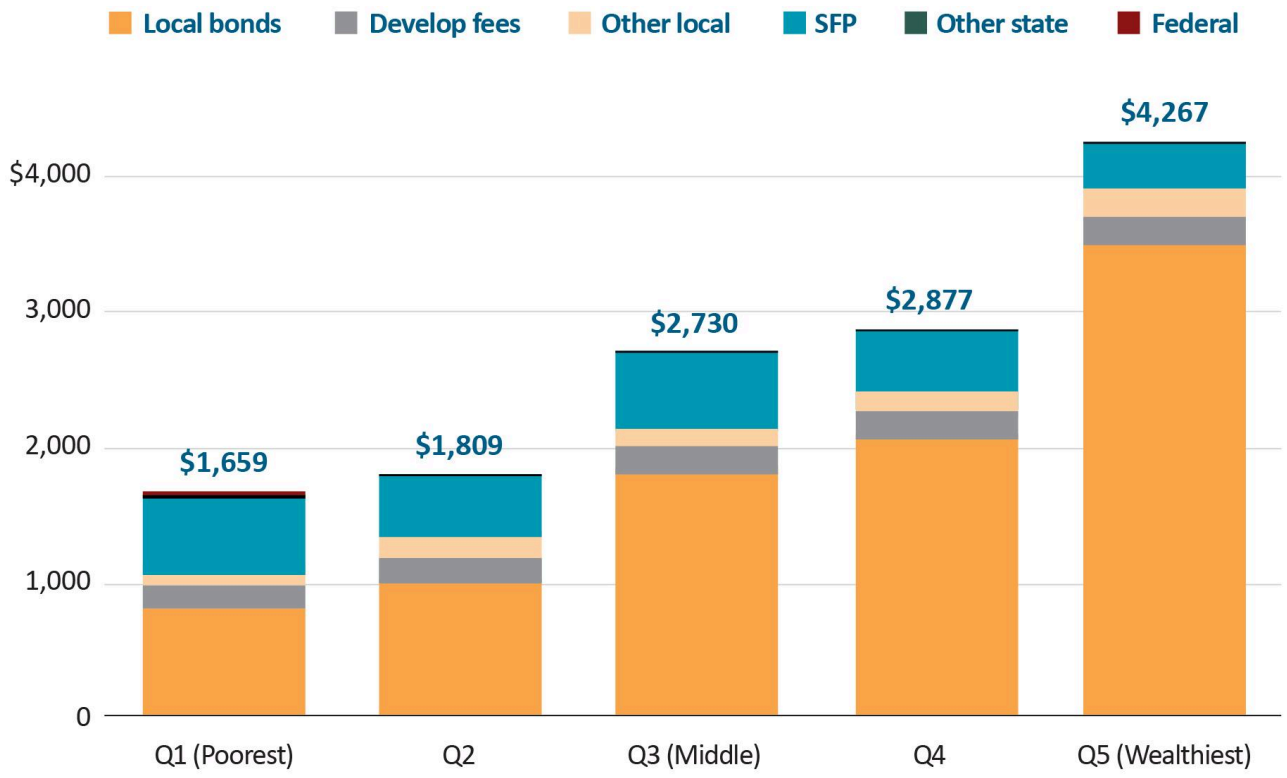


At the same time, important limitations remain in the evidence. Willis and Tanner show that LCAPs are, in some areas, difficult to interpret: structural features of law and regulation constrain what districts can report and how easily they can reallocate funds across purposes. The school-level spending data used by Bruno are intended to reflect actual spending, but they provide even less detail about how money is spent, and district reporting practices vary widely enough to make system-wide conclusions

difficult. As a result, California still lacks the data needed to verify with confidence the extent to which specific student groups are benefiting from higher levels of spending.

Finally, while LCFF and related reforms have reduced or eliminated many inequities in operational funding, some inequities remain. Bruno shows that LCFF's supplemental grants are not always sufficient to offset lower local revenues in districts with low-to-moderate shares of high-need students. School facilities funding is also highly unequal. As shown by Hinkley and Vincent (and in **Figure 4**), the wealthiest fifth of districts received $4,267 per pupil in capital revenues from 2004 to 2025, 2.6 times the $1,659 received by the poorest fifth. This gap is driven largely by wealthier districts' greater ability to issue local general obligation bonds, though some state facilities programs also reinforce these inequities by disproportionately benefiting districts with greater local capacity. Here too, data limitations hinder reform, because California still does not systematically collect the information on building conditions, ages, and adequacy needed to target facilities investments effectively.

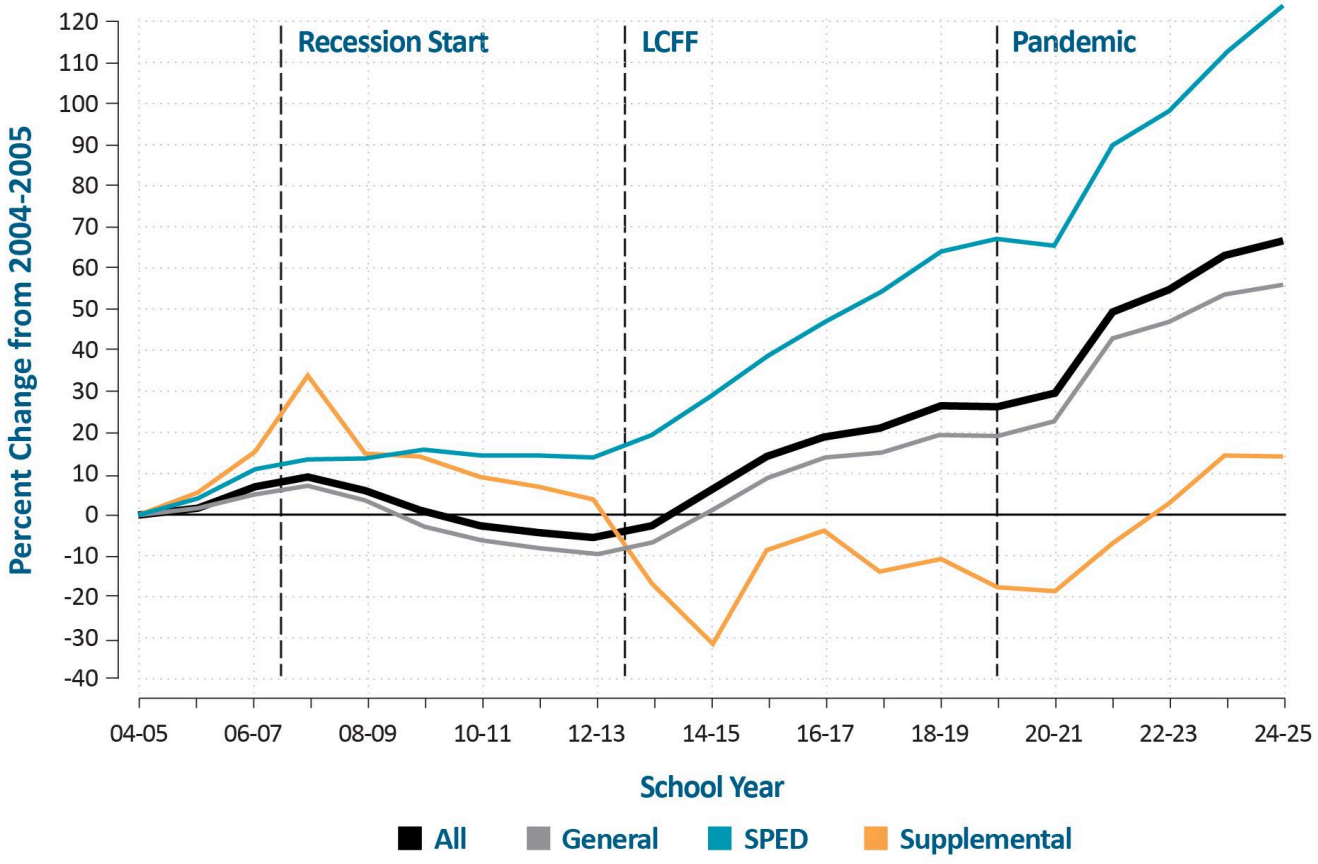
Figure 4. Capital revenues per pupil by assessed value quintile (2004-25)



Cost pressures from special education and employee benefits are consuming a growing share of district budgets

Bruno's study documents how, as school funding has reached historically high levels, a growing share of those revenues is consumed by a few categories of spending. As shown in **Figure 5**, much of the additional revenue has gone to special education. Since 2004-05, total operational spending per student has increased 67 percent in California districts, after adjusting for inflation. Spending on special education has more than doubled, increasing by 123 percent, and special education now accounts for 20 percent of districts' operational budgets. This growth appears to reflect, at least in part, the increase in the share of California students identified as having a disability, from 9.6 percent in 2003 to 13.5 percent in 2023, as well as growth in disability categories that may entail higher costs, such as autism.

Figure 5. Inflation-adjusted changes in student spending per ADA on educational goals in California Districts



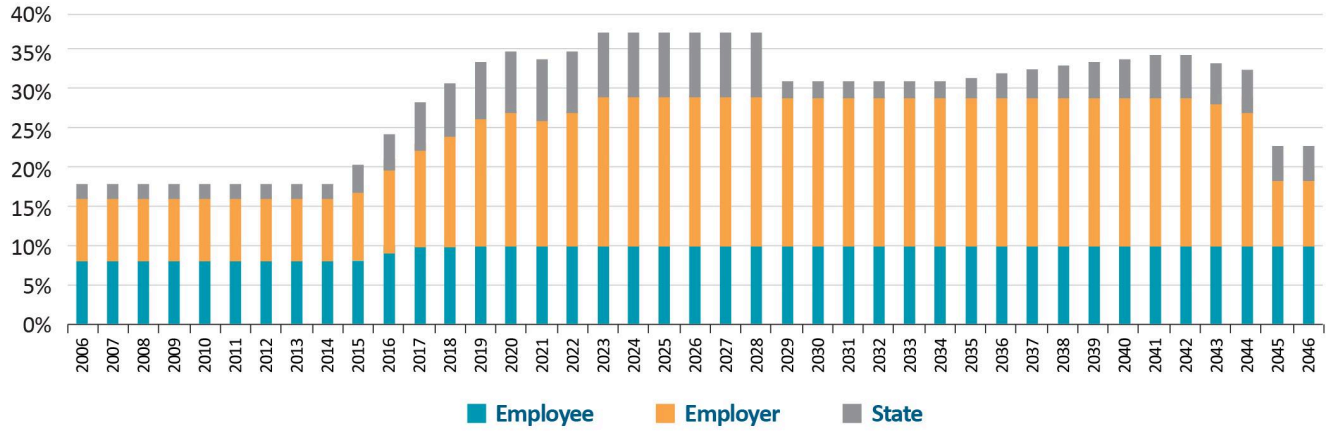
Willis and Tanner's LCAP analysis adds detail about how districts plan special education spending. Using the required components of the federal Individuals with Disabilities Education Act, they find that planned special education spending is directed most often toward services and supports, far more than

toward eligibility and evaluation. They also find that many planned actions connect special education to broader school supports, including multi-tiered systems of support (MTSS), counseling, behavior, attendance, and inclusive classroom settings. This pattern suggests that districts often treat special education spending as part of a broader student support strategy, rather than as a separate set of services only for students with Individual Education Programs (IEPs).

Another area of the budget that has consumed a disproportionate share of new funding is employee benefits. Employee benefit spending also more than doubled in the two decades since 2004-05, increasing by 107 percent and growing to consume 22 percent of operating budgets. Some of this growth reflects rising costs of health insurance for employees. The per-teacher cost of medical benefits increased by 46 percent between 2004-05 and 2024-25. Since districts require teachers to pay little of these costs – about 15 percent on average – most of them have been passed on to districts. A minority of (typically larger) districts have also accumulated large, unfunded liabilities in the form of health benefits they have promised to their retirees but for which they have not set aside funds. The cost of providing those benefits has grown recently and will continue to grow as more teachers retire and claim them. In some districts these liabilities are substantial: about 10 percent of students attend districts with at least $11,660 per ADA in such unfunded liabilities.

However, as Koedel and Burgess document, the greatest employee benefit cost pressures in recent years have come from pension obligations. The total contribution rate to CalSTRS – the pension system covering California teachers – now amounts to about 38 cents for every dollar of teacher salary. While the state and teachers themselves cover some of those costs, over half (19.1 percent of teachers' salaries) is covered by school districts. The district contribution rate has more than doubled, from 8.3 percent, since AB 1469 was enacted in 2014 to address the system's accumulated unfunded pension debt (see **Figure 6**). Bruno shows that, consequently, while districts spent $700 per student (ADA) on pension contributions in 2004-05, that figure had more than tripled, to $2,371 by 2024-25. Koedel and Burgess emphasize that these higher pension costs are to pay down debt and do not correspond to improved benefits for current teachers. In fact, current teachers receive less generous pensions than their counterparts hired before 2013.

Figure 6. Realized and Projected CalSTRS Statutory Contribution Rates, 2006-2046, in Percentage Points of Salaries and Separated by Contributor Type

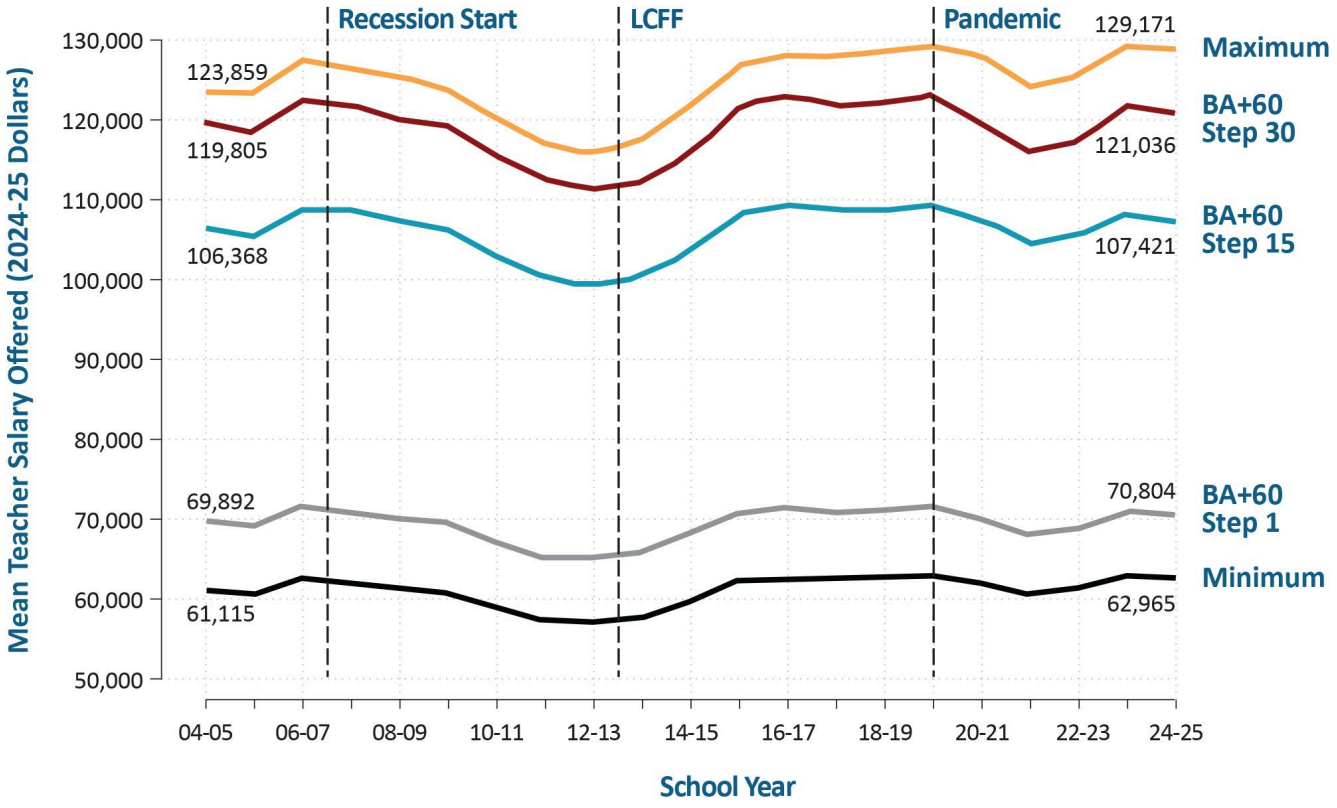


Sources: For years 2006 to 2024, CalSTRS' Actuarial Valuation Reports. Rate projections going forward are from the CalSTRS' 2024 Report to the Legislature on the Progress of the CalSTRS Funding Plan.

Importantly, AB 1469's reforms did not meaningfully change the underlying structure of CalSTRS. Consequently, the new, higher contribution rates will help to deal with debt accumulated in the past, but do not prevent additional debt from accumulating in the future. Districts also employ classified staff covered by CalPERS, which faces broadly similar funding challenges.

The combined effect of rising special education and employee benefit costs is visible in teacher salary spending, as shown by Bruno. While there has been some growth in per-pupil teacher salary spending, it has been much slower than overall spending growth. The teacher salary spending growth that has occurred is largely attributable to one-time bonuses (especially since the onset of the pandemic), more educators per pupil, and teachers advancing on the salary schedule through seniority or education – not to growth in base salary schedules themselves. Real, collectively bargained teacher salary schedules are essentially unchanged from two decades ago, even as total spending has increased substantially (see **Figure 7**). This pattern of compensation growth is unlikely to support recruitment and retention as effectively as sustained growth in base salaries.

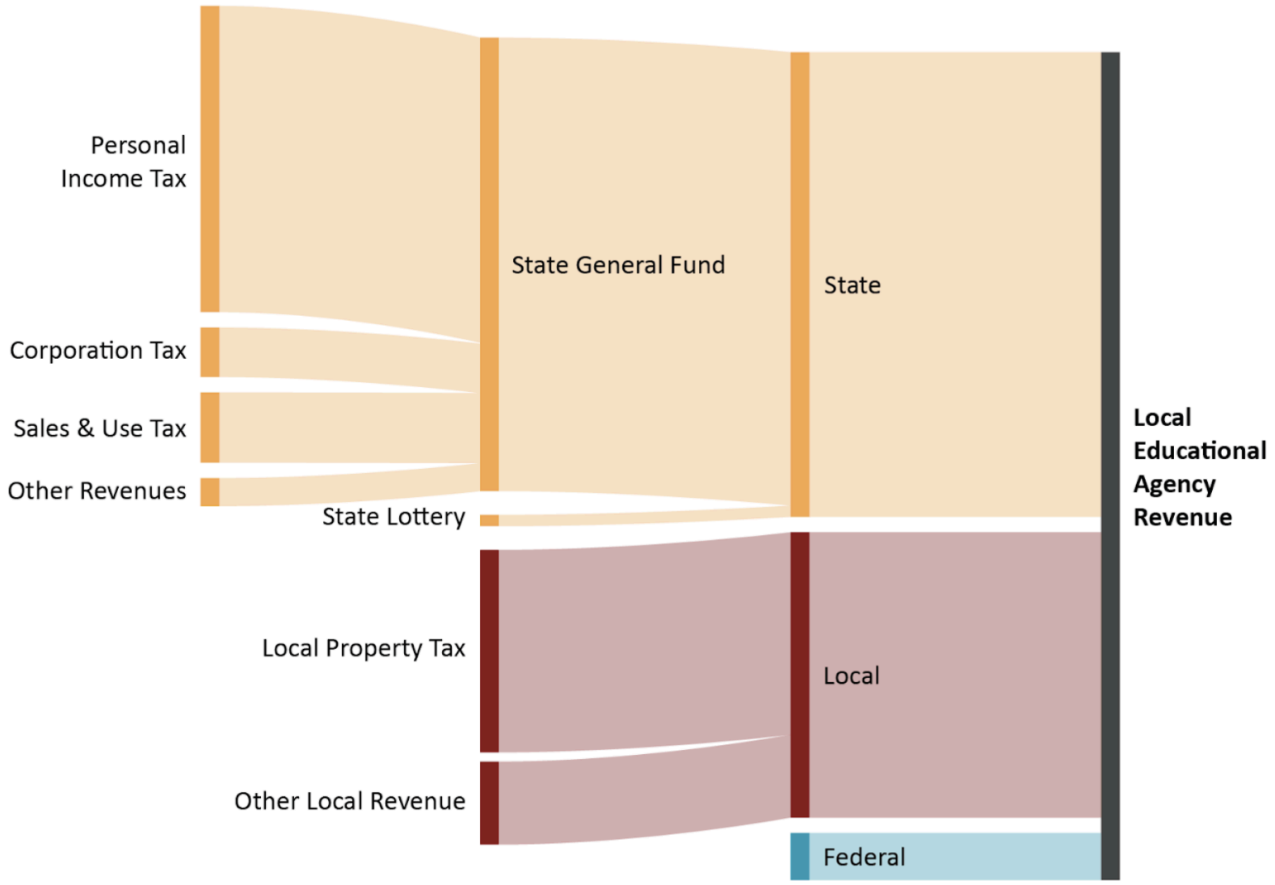
Figure 7. Mean salaries on California district salary schedules. Weighted by district FTE.



Constraints on revenues lead to volatility and uncertainty in California's school funding system that limit efficient investment and budgeting

As shown by Bruno, California's school districts are more dependent on state funding than districts elsewhere in the country, getting about 57 percent of their revenue from the state, and less than one-third from local sources. As Kaplan and Mercado show (see **Figure 8**), California's districts depend heavily on state General Fund revenues. These General Fund revenues have increasingly come from personal income taxes, which now account for 68 percent of those dollars, up from 31 percent in 1974-75. Personal income taxes fluctuate dramatically with the business cycle, creating financial unpredictability for the state and, consequently, school districts. Further unpredictability looms because Proposition 55, which provides additional income tax revenue from high-income Californians to help fund education, is set to expire.

Figure 8. Sources of Local Education Agency Revenues



Notes: Local educational agency revenue from state, local, and federal funding sources reflects California Department of Education school district finance data. 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 revenues.

Sources: Learning Policy Institute analysis of 2024-25 data from the California Department of Education and California Department of Finance.

Revenue unpredictability limits the ability of districts to do strategic medium- and long-term budgeting, such as committing to increases in teacher salary schedules beyond keeping pace with inflation, and several factors compound the risks posed by revenue volatility. For instance, Hinkley and Vincent show that climate-related risks to schools and their facilities, such as wildfires, are growing, unevenly distributed, and difficult to predict.

The interaction of revenue volatility with long-term obligations is especially dangerous. The unfunded liabilities associated with retiree health benefits (as described by Bruno) and pensions (as described by Koedel and Burgess) do not diminish during economic downturns or when the student population declines; contributions toward those debts must continue even when revenues fall.

A more diverse set of revenues could be more stable and therefore offer districts more financial predictability, but there are a variety of constraints on what additional revenues can be accessed. Perhaps most notably, Proposition 13 imposes a constitutional cap on property tax rates and restricts assessment growth, limiting the ability of the state to rely on local property wealth to fund schools to the extent that is, as Bruno notes, common elsewhere in the country.

Implications for California

Revenue sustainability, stability, and diversification

The evidence suggests that California's heavy reliance on volatile personal income taxes makes it difficult for districts to commit to ongoing expenditures, even when revenues are high, and erodes public trust when revenues fall. This limits investments in sustained staffing and instructional improvements that can benefit students. Greater funding reliability could expand districts' capacity to plan strategically and make key long-term investments, such as in teacher salary schedules, while also making it easier for the state to sustain a higher overall education funding effort. Kaplan and Mercado consider a range of options for improving the adequacy, stability, and equity of the revenue system, including broadening the sales tax base, revisiting corporate tax expenditures, and reconsidering constraints on local property taxes.

Employee and retiree benefit costs as a growing fiscal pressure

Bruno and Koedel and Burgess show that new state funding for education is being disproportionately absorbed by health benefit costs for current staff and by health and pension costs for retirees. This means that fewer dollars are available for investments that may have greater benefits for students, such as teacher salaries. Dollars diverted to paying down pension and retiree health insurance debt for former employees are especially consequential because they likely reduce classroom investments and, at the state level, may come at the expense of spending on other social services that matter for high-need families. As Bruno notes, some districts, and some employers in other sectors, have reduced their health benefit costs by shifting a larger share of those costs onto employees themselves. Koedel and Burgess also show other states have used pension reforms to reduce the accumulation of long-run pension obligations while preserving retirement income security for educators.

Special education costs are an ongoing challenge

As Bruno shows, special education costs consume more of district budgets than ever before. While special education can have real benefits for students, paying for those services means fewer resources are available for other educational programming. Even if student identification rates stop climbing,

legal protections for special education services mean that any revenue declines will tend to hit general education spending first. The evidence suggests that special education identification, service design, and delivery models may remain central to California's broader fiscal challenges.

Data quality and the ability to monitor equity and improvement

California currently lacks the data needed to reliably verify whether LCFF resources are reaching their intended beneficiaries. School-level spending reports vary too widely across districts and include too little detail, while LCAP reporting is simultaneously too complex and too compliance-oriented to make equity and effectiveness monitoring feasible. Facilities equity is even less visible because California has no comprehensive inventory of school building conditions to assess district need. Greater consistency and detail in school-level spending data, revised and streamlined LCAP reporting, and improved facilities data collection would make it easier to monitor progress toward the state's equity goals.

Conclusion

California's school districts are currently operating from a position of relative financial strength, with historically high levels of funding. LCFF and other investments have delivered a more equitable funding system. And there is evidence that at least some of the additional resources are reaching the intended students and producing measurable benefits.

At the same time, California's school districts face a variety of financial risks. Special education costs and employee benefit costs are growing in ways that are difficult to control and that consume resources that would otherwise be available for instruction. Facilities funding continues to favor wealthier districts, and escalating climate impacts threaten to impose significant costs that existing funding mechanisms are ill-suited to address. Enrollment and attendance declines have the potential to reduce revenue while also causing some costs to grow on a per-pupil basis. And these risks are made more acute by a statewide reliance on volatile state revenues. The research gathered for Getting Down to Facts III brings these challenges, and the tradeoffs they present, into sharper focus.

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