

California Local Education Foundations and Nonprofits

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Background

K-12 public education in the state of California has seen better days. In January 2013, the Editorial Projects in Education Research Center reported that of the 50 states California had dropped to 48th in per-pupil spending, ahead of only Utah and Nevada (Education Week). Educational outcomes for the state are also discouraging as the scores that 8th graders receive on the reading and math National Assessment of Educational Progress (NAEP) are consistently below the national average (National Center for Education Statistics).

Two culprits are normally given “credit” for California’s low spending and poor educational outcomes. The first is the 1971 California Supreme Court ruling *Serrano v. Priest*. In this case the court found that the system of education finance then in place in California was in violation of the Equal Protection Clause of the California Constitution. Because the system was largely based on local property taxes and property-rich districts could generate much more funding per pupil than property-poor districts, the quality of education that students received was directly related to the wealth of their school districts. The state legislature responded to this and later rulings by changing the state’s education finance system. While the current system is quite complex, the general purpose money each district receives is subject to a revenue limit that has been set by the state. For the vast majority of districts, the state supplements whatever revenue has been raised through the local property tax to bring the district up to its revenue limit.¹ Thus if property taxes within a district increase, there is not a corresponding increase in school district expenditures because the state will reduce its share of funding to match the increase (EdSource, 2013). Some believe that this highly centralized finance system discourages investment in the

¹ Of the approximately 1000 districts in California, about 60 are able to raise funds beyond their revenue limits. These are called basic aid districts and they are allowed to keep this additional revenue.

state's education system because any increase in property taxes is not felt locally and does not benefit local public schools (Fernández and Rogerson, 1999, 2003; Silva and Sonstelie, 1995).

The second suspect in California's education finance problem is the passage of Proposition 13 in 1978. Proposition 13 dramatically cut property taxes, resulting in an immediate drop in local government revenue, particularly for school districts. The state stepped in to fill the gap for schools and local governments, further centralizing the state's education finance system. Many believe that because this system is now dependent on state rather than local funding, the state has not kept up with the normal increases in education funding that were seen in California before *Serrano* and Proposition 13.

Many activists and parents are understandably concerned about the state of California's education finance system. As a way to address the loss of funding and local control over public schools, districts, and in some cases individual schools, in California and elsewhere began forming 501(c)(3) nonprofit affiliates and education foundations to raise money for local school districts outside of the state's tax system and control. It is important to note that the nonprofits themselves often explain their existence in California as a result of the state underfunding education and there being a need for someone to provide a quality education for children. For example, the Mill Valley Schools Community Foundation website says, "Kiddo! was founded in response to the passage of Proposition 13, which drastically reduced property taxes and, correspondingly, public school funding. The school funding situation is no better today – California now ranks 49th in the nation in terms of annual per pupil expenditures."

Analysis

This paper analyzes nonprofit education entities in California and their contributions to public education. The data used in this paper is taken from 990 forms nonprofits are required to file with the IRS every year in which they raise more than \$50,000 in gross receipts (made available through searches on Guidestar.org). While some organizations may not have filed every year, we are still able to provide a thorough analysis of what nonprofits are adding to California's public school finances. In total we have 1146 nonprofits in our database which support a diversity of organizations including entire school districts, one or two specific schools, or even all schools in an entire county. These include Local Education Foundations (LEFs), booster clubs, and other nonprofits that support curricular needs of public schools.

Specifically we focus our analysis on school districts and individual schools. For each school or district with at least one nonprofit, we collected data for all nonprofits associated with that unit for the most recent year in which they had all filed a 990 form during the 2008-2012 period. In the few instances where not all filed in the same year, we collected data for the year in which the most nonprofits had filed. We then summed the total revenue from each nonprofit for each unit so that for each school or district we had a sum of revenue for all the nonprofits filing for that unit; this figure is then adjusted to real 2011 dollars. This sum gives a measure of the capacity of the school or district to raise money through the use of its nonprofit organizations.

The first question is how much revenue the nonprofits are able to raise. Table 1 provides a summary of the revenue for the nonprofits as well as the quartiles for the reported revenue. The large differences in the mean and median revenues indicate that a few nonprofits are able to raise large amounts of funds while most are raising revenue at a much lower level. Also, nonprofit organizations at the district level are able to raise more revenue than those for individual schools.

Table 1 – Total Revenue

Type	Number of Units	1 st Quartile	Median	3 rd Quartile	Maximum	Average
District	232	\$34,380	\$82,880	\$515,911	\$7,499,090	\$503,103
School	679	\$37,074	\$77,432	\$199,299	\$2,733,256	\$170,411

The real question, though, is how much the nonprofits are raising per pupil, the standard measure for education support. The California Department of Education reports school and district enrollment data every year (2013). Using this enrollment data, we calculate the per pupil revenue that the nonprofits raise, shown in Table 2 below; this changes the picture dramatically. Again there is the pattern of large differences in the mean and median revenues, indicating that a few nonprofits are raising a great deal of revenue. However, according to this measure it is the school nonprofits that are able to raise the most revenue per pupil rather than nonprofits at the district level. This may be indicative of some collective action problem as it may be easier to fundraise when the revenue will be kept within the local school rather than spread throughout the entire district.

Most distinctive, however, are the vast differences in what the nonprofits are able to raise per pupil. According to the Census bureau, California spent \$9,375 per pupil in the 2009-2010 school year, which would be \$9,671 in real 2011 dollars. On average nonprofits are raising about \$100-\$200 per pupil, enough to raise per pupil spending by 1-2%. Even so, many are raising far less than these averages and so are not able to raise spending by even 1%. But most amazing is what the highest revenue nonprofits are able to raise. One school was able to raise \$8780.06 per student, nearly doubling what is spent on children in most other public schools in

the state. While this is a bit of an outlier as a charter school in the midst of a capital campaign, it is not alone among education nonprofits that are able to raise several thousand dollars per pupil.

Table 2 – Per Pupil Revenue

Type	Number of Units	1 st Quartile	Median	3 rd Quartile	Maximum	Average
District	232	\$3.74	\$17.16	\$98.96	\$2756.55	\$133.21
School	679	\$31.61	\$78.32	\$187.55	\$8780.06	\$221.97

Implications

Education nonprofits are adding to public education in California in substantial ways, providing programs, materials, and even additional teachers to many schools; but not to all, and not equally. This analysis shows that California’s LEFs and education nonprofits vary tremendously in the amount of money they are able to raise, not just in absolute dollars, but particularly in per pupil revenue. In a state that already spends well below the national average per pupil, foundations are adding anywhere from a few dollars up to almost \$8,800 per pupil. These numbers indicate great disparity in what nonprofits are able to purchase for schools – is it a few pencils or several teachers? These differences are important to acknowledge. On the one hand, it is very difficult to be critical of parents and communities supporting their local schools. Of course parents are to be lauded for involvement that we know benefits children. On the other hand, the disparities that are created by these nonprofits cannot be ignored.

The question of what happens to children who do not benefit from a nonprofit goes unanswered. The fact is that some children receive almost 100% more funding support for their education than the majority of other public school children in the state of California. As the *Serrano* judges concluded in their ruling, “By our holding today we further the cherished idea of

American education that in a democratic society free public schools shall make available to all children equally the abundant gifts of learning.” If this is still a goal for California, then it is time for the state to reconsider how it will achieve true equity in public education.

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