Voluntary Contributions to Public Schools in California:
Growth, Distribution, and Equity

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Chrysanthemum Mattison, Author
DEDICATION

This essay is dedicated to my mom, who has helped me stay positive and grateful throughout my MPP program.

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Abstract

California public schools receive 2-5% of their annual budget from education support organizations (ESOs), such as parent groups, booster clubs, and education foundations. Anecdotal evidence suggests voluntary contributions are in high demand due to shrinking budgets and because California’s highly centralized education funding system is insufficient to meet the demands of the state and parents. There is also concern, however, that voluntary contributions are primarily directed toward students with less need because many of the districts raising large per pupil averages of voluntary contributions are located in communities with high levels of income. This research examines the growth, distribution, and equity implications of the ESOs in 512 districts in California to update and expand what is known about ESOs in California. I find that the number of and revenue generated by ESOs have grown steadily over time, that, in general, high wealth, low diversity districts receive the higher per pupil revenues, and that these contributions slightly contribute to inequity in the system.
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List of Abbreviations

ADA Average Daily Attendance  
API Achievement performance index  
CV Coefficient of Variance  
ELL English Language Learners  
ESOs Education Support Organizations  
FRD Free or Reduced Lunch  
LEF Local Education Foundation  
NCCS National Center for Charitable Statistics  
NCES National Center for Education Statistics  
NTEE National Taxonomy for Exempt Entities  
VCs Voluntary Contributions
1. Introduction

Education foundations, parent-teacher groups, and booster clubs raise private funds for public schools. The different types of organizations vary in their networks, their goals, and their scale, but these 501(c)(3) nonprofit organizations share a common purpose of supporting public districts, schools, and co-curricular programs. The Internal Revenue Service (IRS) categorizes them as, “education support organizations” (ESOs). ESOs support schools and districts by raising and funneling voluntary contributions (VCs) to various programs or areas of need. Today, most schools have at least one type of ESO affiliate, and although ESOs are a relatively recent phenomenon in the public education sector, they have been growing quickly. Between 1997 and 2007, the number of ESOs that generate over $25,000 each year more than doubled and now totals over 19,000 across the country (deLeon, Roeger, De Vita, and Boris, 2010). In 2007, the estimated revenue from these high earning ESOs was over $4.3 billion.

Studies about the successes and characteristics of ESOs are well documented in California. Much of the research on ESOs focuses on California because the state has the greatest number of students, one of the most diverse populations, and substantial growth in the number of ESOs in response to education finance policy changes. "The emerging view is that the number of school foundations is growing and school foundations are providing districts with more flexible funding" (Zimmer, Krop, Kaganoff, Ross, & Brewer, 2001, Appendix D, p. 1). California’s case is important because it brings attention to how finance policy reforms give rise to ESOs. California also provides an example of how districts respond to fiscal stress and the lengths to which they will go to preserve programs, positions, and opportunities for their students. Previous research on California’s ESOs focuses on data from the early 2000s.

Due to the continued interest in and questions about ESOs and their implications for equity, this research updates what is known about education nonprofit activity and influence. This research aims to look at the growth, distribution, and equity implications of ESOs in California
and discuss what the trends may indicate about the equity and state of the current education
finance system. Ultimately, this paper will discuss potential future collaborative relationships
between ESOs and school districts in California. Given the challenges in California’s education
finance system and its constraining budgetary circumstances, it is important to monitor alternative,
private sources of revenue and how they can be leveraged in the most efficient and equitable
ways. This essay speculates on the extent to which private contributions may be useful, while at
the same time cautioning against allowing them to continue to flourish without policy
interventions.

Three questions guide this research. The first is: how have ESOs grown over time? For
this question, National Center for Charitable Statistics¹ (NCCS) data is analyzed and shows the
growth and trends in (1) the number of organizations, (2) the revenue generated by ESOs, (3)
different types of ESOs, (4) district level per pupil revenue, and (5) how ESOs have grown
relative to the public financing in California. The second research question is: how are VCs
distributed? To answer this question, I will show the ways in which VCs in California are
distributed by socioeconomic status (SES), diversity, and academic achievement. The third and
final question asks: are ESOs contributing to inequity in the education finance system? By using a
statistical test of horizontal equity, this analysis shows how financial contributions from ESOs
impact the overall horizontal equity of the education finance system.

This paper offers a synthesis, expansion, and clarification of the impact of voluntary
contributions during the last two decades. The essay begins with a historical background and
descriptions of the different types of education nonprofits. The next section provides a literature
review of what is known about voluntary contributions in terms of their usage, significance, and
distribution. The fourth section introduces a theoretical framework to help guide the data analysis.
The fifth section provides a detailed description of the data collection, methods, and project

¹ The NCCS is the national clearinghouse for revenue data on nonprofits in the United States. It is run out of the
Urban Institute and houses extensive databases containing the IRS tax returns from nonprofits since 1989.
limitations. The sixth section presents the results of the data analysis. Finally, the discussion section addresses the research questions in light of the data analysis, offers policy recommendations, and areas for future research.

This research contributes to the literature by expanding previous research, applying a conceptual framework to ESOs, and providing quantitative analysis of the role of VCs. As more data become available, it is important to update and refine what is known about ESOs as well as the impact they have on funding imbalances across the districts. The main contributions of this project are that it estimates the growth and change of ESOs continuously over nearly two decades and examines the implications of that growth in a variety of ways. Economic and policy shifts play a large role in determining the success of and need for nonprofits, so updating what is known about ESOs with recent data provides more relevant estimates of VCs and may lead to more applicable policy implications than previous studies. More than two decades have passed between major legislative changes in California’s education finance system and this research. With this longer span of time, we can see more pronounced patterns and effects in response to those policies than were highlighted in previous research. By applying a theoretical framework that highlights the ways in which socio-economic status (SES), diversity, and local values and preferences factor into how voluntary contributions are raised and distributed, this research focuses on the policy and social interactions which affect VCs. Finally, by looking at the growth, distribution, and equity of VCs using a number of quantitative measures, this research helps answer timely questions about the nature and effects of VCs in California today. This research uses quantitative data to put the role of VCs in perspective given the shrinking education budget and the equity/inequity of California’s public education finance system.

Today it seems all California districts are facing budget cuts, and ESOs have been called upon to help. Districts use voluntary contributions to pay teachers’ salaries, save programs, and fund athletic or art programs, but to what extent? With little quantitative data or research in this area, most of what is written is anecdotal, general in nature, or based on studies from nearly a
decade ago. This research is focused on explaining ESOs’ patterns and behavior and exploring the implications for school finance equity.

This research finds that voluntary contributions are increasing over time. In 2007, VCs averaged less than $200 per pupil in the districts that raised over $25,000 annually. With such a small percent of the districts’ total revenue coming from VCs, the impact of private giving on equity is small. Of the 512 school districts in this analysis, less than 20 districts raised over $1,000 per pupil from VCs in 2007. These high raising districts, however, were in affluent areas with high performing schools. The concern that emerges from these findings is that if the private giving patterns continue in their current direction, there will continue to be large disparities between the capacity of high and low wealth communities to supplement the shortcomings of the public school finance system. Furthermore, the growth of ESOs over time suggests there is a greater need and demand from parents and communities in terms of funding for public education. This demand, however, is not being met by the current finance system.

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2 There are nearly 1,000 school districts in California, but the data for this research was only matched to 512 districts, indicating that nearly half of the districts in California raise less than $25,000 annually in private revenue.
2. Background

2.1 California’s education finance system

California has the largest population of K-12 students in the United States and faces considerable challenges in its education system. There are over six million students with a wide range of skill level and backgrounds as well as 9,000 schools and 300,000 teachers (EdSource, 2012). Schools in California have the largest student to staff ratio in the country, 20:1 (Kaplan, 2011). Compared with less diverse and smaller states, a larger percentage of students in California require higher than average levels of resources to educate: 43.6% of children in the California education system come from families that are at or below the national poverty line and 38% of the students have parents who do not speak English fluently (Kaplan, 2011). One large concern for both academics and the public is that the California education finance system is unequal and designed in such a way that students in areas of higher poverty have, on average, around $600 less per pupil than their wealthier neighborhood counterparts (Barondess, Schroeder, & Hahnel, 2012). Not only does this violate horizontal equity, but also vertical equity because students in high poverty areas require high cost investments, such as extensive leadership and professional development for staff, specially tailored curriculum, small class sizes, and alternative support programs (Manset, St. John, Simmons, Gordon, Musoba, Klingerman, et al., 2000). California’s education finance system currently has compound and complex inequality issues.

It is also difficult for schools to keep up with basic educational needs because California ranks 46th in the nation in per pupil spending. It would need to add $18.6 billion or a 32% increase in the annual education budget to equal the national average (Kaplan, 2011). Based on multiple measures, the California education system is unequal and under-resourced. Budget cuts

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3 Horizontal equity in education is the condition under which all students, treated as equals, receive an equal amount of resources. Vertical equity refers to the condition in which students with unequal needs are equally well off, meaning students with higher needs receive more resources to match the opportunity of their peers (Berne & Stiefel, 1984).

4 In the 2010-2011 school year, California per pupil spending averaged $8,908 and the mean for the entire US (excluding DC) was $11,764.
in California have increased fiscal stress across the state. Increases in school enrollment and higher costs of educating students in need of extra assistance have contributed to lower per pupil spending across much of the U.S. (Hanushek & Rivkin, 1997). It is partially due to these challenges that California’s education system is ripe for voluntary contributions and other community efforts to increase the resources in public schools.

2.2 Equity

“To allot more educational dollars to the children of one district than to those of another merely because of the fortuitous presence of [high wealth] property is to make the quality of a child's education dependent upon the location...Surely, this is to rely on the most irrelevant of factors as the basis for educational financing.”

-Excerpt from Serrano v. Priest (1976)

California’s K-12 education system has a long history of unequal distributions of resources. The Serrano v. Priest, 18 Cal.3d 728 (1976) state Supreme Court ruling stated that the education finance system “fails to meet the requirements of the equal protection clause of the Fourteenth Amendment of the Unites States Constitution and the California constitution in several specified respects” (p. 2). Prior to this ruling, the local property taxes made up over 40% of a school district’s budget and led to large inequalities across the state (Ed Data, 2012).

Extensive variation in the average income level across the state meant that while the median per pupil spending was $12,243, the average per pupil spending in Garden Grove school district was $5,326 and the San Francisco school district averaged $27,829 (Sonstelie, Brunner, & Ardon, 2000). As a result of the Serrano ruling, California enacted policies that centralized the funding system with the goal of increasing horizontal equity by minimizing the inequality in resource distribution. For horizontal equity to be achieved in education finance systems, all students must receive an equal amount of resources (Berne & Stiefel, 1984). While horizontal equity is not an indication of adequacy or fair distribution of resources based on the differing needs of students, it does serve as a benchmark standard in school finance literature (Moser & Rubenstein, 2002).
California's post-Serrano education finance system reduces the percent of the district budget that comes from local property taxes in an effort to restrict the impact local wealth has on the quality of public education. To comply with the ruling, the state has a “Serrano band” which reduces the gap in spending across districts to $450\(^5\) (Ed Data, 2012). These changes create a more equal public funding system as required by the Serrano ruling\(^6\). In 1978, Proposition 13 set an explicit 1% property tax limit on the local tax dollars that could go toward education. The proposition was a result of a tax payer revolt. While it was not a direct result of the Serrano ruling or in response to equity concerns, today, Proposition 13 contributes to the policy environment that fosters private giving as a response to limited options for increasing local support to public education (Stark & Zasloff, 2003).

The California system is different from many other states because it has a relatively centralized distribution plan. Proposition 13 makes California unique in that local funding is a substantially smaller portion of the district’s budget. Consequently, California’s state level contributions to public education is ranked 18\(^{th}\) highest in the United States (Duncombe & Yinger, 2006). In 2010, California public schools received 60% of their operating budgets from the state, 23% from local taxes, 10% from the federal government, 6% from other local miscellaneous funds (including voluntary contributions), and 1% from the state lottery (Ed Data, 2012). Besides ESOs, the local miscellaneous category also includes revenues from fees, parcel taxes, cafeteria sales, and district investments (Ed-Data).

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\(^5\) Updated April 2012 from Ed-Data
\(^6\) There is much contemporary debate regarding what equity in education really looks like. Horizontal equity, vertical equity, as well as adequacy are common contemporary measures of school finance success. In this research, horizontal equity serves as a proxy for satisfying the state constitution’s equal protection clause and the main goal of Proposition 13. This research does not seek to claim horizontal equity as a measure of adequacy or success.
The current education funding formula is complicated and equity in spending is not always achieved (Rose, Sonstelie, & Weston, 2010). The state provides two types of funding for districts, categorical and general purpose. For categorical funding, all districts receive revenue based on various measures (such as number of English Language Learners [ELL] or students with special needs). For general purpose funds, which can be used at the district’s discretion, districts have revenue limits. A revenue limit is the amount of money the state calculates should be allocated to the school. At least part of this limit is met with the revenue from the 1% local property tax, but if a district does not reach its limit, the state makes up the difference between the revenue from local property taxes and the revenue limit amount (Kaplan, 2009).

Revenue limits are part of the reason inequality persists in the system, because while they guarantee schools a certain amount of funding, high wealth areas tend to end up with more than their limit. If a district raises more than its revenue limit solely through the local property taxes, it is called an “Excess Revenue District” and is allowed to keep all the revenue from the taxes (Ed-Data). While they do not receive any extra funding from the state in terms of general funds, the districts do still receive categorical funding. While California’s policies move away from a property-tax based funding system, equity remains a major concern in education finance because for at least 100 districts, the revenue limit is exceeded just by the 1% property tax (Basic Facts About Basic Aid, 2012). Despite attempts to foster equity in the education finance system, the design, in fact, leads to many persistent and potentially problematic inequalities (Weston, 2010).
2.3 History and background of ESOs

This section provides a brief history and background on the different types of ESOs. Since the 1950s, private philanthropic organizations have increased their support to public schools (De Luna, 1998). Private businesses and corporations became more involved in education during the 1980s and 1990s in an effort to support economic development and a partnership between the work force and public schools (Sola, 1989). Also in the 1980s, local foundations and ESOs became more popular as districts responded to property tax limitations and the changes in state funding laws (De Luna, 1998).

Since their founding, ESOs have formalized their networks and found ways to leverage technology to raise more funds. Booster clubs and parent teacher groups across the U.S. rely heavily on direct sales and product fundraising. In 1997-1998, schools brought in $1.5 billion in net profit from the product fundraising industry (Coles, 1998). Technology and fundraising “virtual malls” make this an increasingly popular and useful tool (Addonizio, 2000, p. 71). National organizations such as “Bidding for Good” (www.biddingforgood.com) and, “Give to Schools” (www.givetoschools.org) provide schools and districts with ways to collect funds and support for specific projects and causes.

Parent teacher groups are the most abundant of all the ESOs and in 2007 comprised 73% of ESOs in the U.S. (deLeon et al., 2010). Parent teacher groups can be independent, or affiliated with a national organization, such as Parent Teacher Associations, Parent Teacher Organizations (PTA, PTO). The national office helps the local organizations organize, strategize, and connect with the community through various events and fundraisers. These national organizations promote parent involvement in schools and also lobby state and federal governments on behalf of students (GreatSchools, 2003). Most schools have some type of parent group and provide a platform for local-level school- and education-related political discussions. The boards run the groups and are responsible for fundraising, making recommendations to the school administration,
and connecting the community with the schools. They are most prevalent in elementary and unified districts and provide funds for anything from new playground equipment to teacher salaries.

Booster clubs are primarily associated with specific co-curricular activities, such as athletics or the arts. These are also mostly parent organized and run groups that coordinate with the programs they support. Besides raising voluntary contributions, boosters are also volunteer organizations where many of the members donate their time to help the particular activity before, during, or after events. Booster members may also obtain donations for equipment or uniforms and then negotiate commercial access in the schools, such as through billboards, advertising, and vender booths (Pijanowski & Monk, 1996). Boosters make up the smallest number and least amount of revenue in terms of ESOs, but they also very clearly show the potential inequity between schools. Evidence of booster support can be seen in new uniforms, state of the art equipment, and trips and opportunities that extend beyond the classroom.

Education foundations have the most variety in terms of what they do and how they go about serving students. Local Education Funds (LEFs), founded in 1983, work with districts but remain independent (Public Education Network, 2011). California has the most LEFs in the United States. Their mission is to improve public education for students in urban low-income areas. The LEF organizations, “seek to reform, improve, and support public education so that low-income and minority youth are prepared for productive lives…[T]hey regard themselves as change agents that help provide the impetus and means for improving public education” (deLeon et al., 2010, p.2). LEFs hold their communities responsible for their schools and support long term district and community goals by facilitating efforts around improvement for students with high need (Nuefeld & Guiney, 2003). These ESOs build a support network through grants, community involvement, and political involvement. More than other types of foundations, LEFs are exclusively committed to decreasing inequality in the education system. LEFs are affiliated with the Public Education Network (PEN) which frequently interacts with policy makers,
mobilizes resources, and promotes private involvement in educational reform for low-income and minority districts (Useem & Neild, 1995; Bergholz, 1992).

The other education foundations captured in this analysis are school district foundations. They are directly affiliated with a particular district. Unlike LEFs, district foundations are less likely to arise in areas of low wealth (Brent, 2002). These ESOs may be part of a network, such as the California Consortium of Education Foundations, but do not necessarily all have the same goals. These organizations receive donations for the district and use the revenues they raise for improvements to curriculum, capital projects, instructional materials, and enrichment activities (Addonizio, 1998). These organizations may fund a wide range of activities through small grants to teachers or departments, or they may serve a single purpose, such as facility maintenance. District foundations are concerned with improving the academic aspects of the schools as well as establishing strong connections to the local community, government, and businesses.

There are also foundations specifically affiliated with charter schools. Charters receive some public funding, but unlike the non-charter schools, they also depend heavily on voluntary contributions for operating costs. In California, 5% of schools are charters and 2% of students attend one (Loeb & Strunk, 2007). To date, there is very little known about how charters compare with non-charter schools in terms of voluntary contributions. Loeb (2006) finds that pinpointing the origins of charter school resources is both difficult and most likely inconsistent across all charters. Charter schools continue to pose a particular challenge in this analysis because while they do receive considerable amounts of voluntary contributions, due to data limitations, the scope of this project was not able to capture or estimate their total.
3. Literature Review

3.1 Why do districts need voluntary contributions?

This first section reviews how political factors, such court rulings, reforms for greater equity, and changes to state education-funding schemes, provide an impetus for ESOs and other types of private involvement in public schools. Zimmer and Jones (2005), and Brunner and Sonstelie (2007) explain that increases in private school enrollments, increases in parcel taxes, and increases in voluntary contributions are all responses to California’s equity reforms in the 1970s. These measures are examples of school districts “circumvent[ing] the policy’s intent for greater spending equity” (Zimmer & Jones, 2005). In other words, parents in California respond to the gap between what they demand from the public school system and the opportunities it can actually deliver. The authors note that while school finance is highly centralized, school governance is not, and this leads to ineffectiveness of the centralized system.

The literature also suggests ways in which fiscal stress and changes in the economy impact the dependence on and rise in voluntary contributions. Rich (1981) suggests that understanding the relationship between the voluntary and government sectors increases the state’s ability to respond effectively when budgets shrink and the demand for services increases. Rich explains how voluntary and collective community support decreases the cost of a demand for government services. Essentially, Rich proposes increasing the collaboration between government and voluntary sectors to save programs that the community wants or needs.

A 2007 survey of more than 1000 school principals from all over the country shows that 94% of their schools rely on voluntary contributions from ESOs to supplement their public revenue (NAESP, 2007). 85% of these principals said that the need for VCs increased over the last decade. Many of them also expressed concern that heavy emphasis on fundraising places too much pressure on the children, families, and community members.
Morton (1995) studied rural schools in Montana that used voluntary contributions to save programs that would have been lost in budget cuts. When the state cut 4% of the public funding for schools, districts needed to cut spending or else find other means to keep their programs. Several community efforts, such as paying participation fees, fund raising, booster clubs, and selling tickets to games, have helped preserve some of the athletic and fine arts co-curricular programs. The authors found that the larger school districts were more successful at saving their programs, but smaller and rural area schools that formed cooperatives for the activities to save costs were more successful than those that did not collaborate with other schools or local nonprofit organizations.

Specifically relating to fiscal stress in California, Uroff and Leisure (1993) explain that budget cuts that resulted from Proposition 13 led South Pasadena Unified School District to create its education foundation in 1980. Another early example from the 1980s was Escondido Unified School District. Its foundation supported the athletics program (Meno, 1984).

Essentially, these authors show that less public resources do not mean there is going to be decreased demand for services and programs. Voluntary contributions and other local efforts to support public education help, but some work more effectively than others. While it is easier for wealthier or larger districts to make changes because of the larger range of opportunities, rural and smaller communities can pool together resources and also save programs in the midst of budget cuts. The shrinking budgets in California public schools make it difficult to meet the increasing demands of the public and of the state, and so the voluntary contributions serve as a life preserver for many education programs and jobs. In this way, growth of ESOs is an indicator of the inability of the current system to fund to at a minimum standard. Communities rally together to stand behind their local schools.

3.2 Do voluntary contributions only go to wealthy districts?
Many local news stories written in the past few years report that districts rely on ESOs more than ever because of budget cuts, but that glaring inequalities exist between the districts in terms of how much revenue their ESOs can raise (Mello, 2011; Banks, 2011; News10, 2011, Chandler & Brown, 2012, Yang Su, 2012). These news stories and anecdotes highlight that districts do not feel equipped to handle the needs of their students because of shrinking and insufficient budgets, and while ESOs are often charged with filling that gap, it is unfair that some schools fall far behind their wealthier neighbors in terms of making up revenue.

In their earliest study of VCs in California public schools, Brunner and Sonstelie (1996) estimated there were 2,634 ESOs in California in the 1992-1993 school year. They used data from the Registry of Charitable Trust at the Attorney General’s Office and the National Center for Charitable Statistics (NCCS). Using the NCCS data, they estimated that 1,264 of the ESOs took in over $25,000 each year. After matching the high earning ESOs to districts, they concluded that while the finance reforms take the state from one of the least equitable to one of the most, the schools that see the largest reduction in per pupil spending after Serrano are the same districts that raise the most revenue per student in voluntary contributions. This phenomenon is to be expected given that privilege tends to assert itself despite major policy reforms aimed at fostering equity. These are typically smaller, wealthier districts. The revenue in districts that have a negative percent change after Serrano raised an average of $148 per pupil, with the highest amount being $441 per pupil. Districts that received more public funding per pupil after Serrano generated an average of less than $50 per student, with the highest amount being $172 per pupil. The authors estimate that ESOs in California generated $97,222,900 in the 1991-92 school year.

Merz and Frankel (1995) find that the number of nonprofits does not differ much across economic communities. The amount they contribute to districts, however, varies substantially. Brunner and Sonstelie (2003), Brunner and Imazeki (2003, 2004), as well as Downes and Steinman (2007) find that smaller, wealthier districts tend to have greater amounts of voluntary contributions as measured by a per student average. Brunner and Sonstelie (2003) explain that,
“[f]rom the perspective of these parents, government is now failing to provide a level of service for which they are willing to pay,” and they speculate that, “parents in smaller, wealthier districts cooperate and adhere more closely to the social norm of giving than in the larger districts, but only marginally so” (p. 2158). They suggest, however, that even when there is high participation rate by the parents, “the contributions are not large enough to undermine school finance reform” (p. 2159).

There is disagreement within the literature regarding the distribution of ESOs and their impact on equity. Zimmer et al. (2001) suggest that school foundations actually help narrow the funding difference between higher-income and lower-income districts. In a qualitative study, the authors interviewed school and district staff also collected data from questionnaires from ten elementary schools and six districts in the Los Angeles area. They investigate who gives private contributions and what they are used for across different SES levels and local government structures. The authors find that high and low wealth areas approach VCs differently. The high wealth districts raise funds from the local community and families. The less well-off school districts receive funding and resource support from LEFs, private corporations or government grants that target school improvement. The authors conclude that while wealthy areas have more capacity to raise local contributions, there are many ways in which lower wealth districts also bring in private dollars, which in turn compensates slightly for the disparities between the districts. It is important to note, however, that in-kind donations are primarily made to districts in wealthier communities. There is little known about the quantity and impact on equity of these nonmonetary contributions.

Brunner and Imazeki (2003) estimate that in 2001, only a few schools in California raised over $500 per pupil from VCs, but that these schools did have more resources (such as aides per pupil, and computers per pupil) than the schools with fewer private contributions. They suggest higher levels of voluntary contributions buy more inputs for the districts. Like Zimmer et al. (2001), however, they find that many schools may be “compensating for the fact that, all else
equal, they would otherwise have fewer computers and aids, more pupils per teachers and larger class sizes” (p. 21). Crampton and Bauman (1998), on the other hand, find that school foundations increase per pupil spending inequities. Brunner and Imazeki (2004) agree, and show that when looking across quintiles of average family income, the average per pupil revenue generated by ESOs is highest in the wealthiest families. However, in 2001, an estimated 80 percent of schools received less than $50 per pupil. The authors conclude this does not lead to large enough disparities to undermine finance reforms. Loeb, Grissom, and Strunk (2007) find that voluntary contributions do contribute to significant variation across districts, but Brunner and Imazaki (2004) say it is unclear whether this variation across districts results in problematic inequities.

While the literature shows the number of ESOs tends to be distributed equally, there remains concern that the impact of ESOs creates problematic gaps in the resources to different districts, mainly because there are conflicting conclusions from similar studies. When discussing equity in VCs, the literature mostly examines family wealth. One study by Brunner and Imazeki (2003), examines the distribution of VCs as it relates to the distribution of resources in a school and across a district. They include a series of regression analyses that predict levels of VCs using factors such as the level of resources in the district. Resources are quantified based on the number of computers per pupil, aids per pupil, and average class size. They conclude that, “contributions not only affect the distribution of resources across schools in different districts, but also the distribution of resources among schools within the same district” (p. 20). Like previous research, these authors find that estimating VCs is difficult and the current methods do not capture all the private contributions in districts or schools. The negative impact on equity, however, is generally thought to be present, but low or insignificant in light of total district funding.

3.3 How is the money spent?
Academic and news articles that highlight the benefits of voluntary contributions focus on how the contributions save programs and jobs, provide opportunities that improve conditions, or benefit students directly⁷ (Lampkin & Stern, 2003). Supporters emphasize how the local businesses, foundations, and individuals pool their resources and take action in the students’ best interest (Gilchrist, 2011). The literature discussed in this section focuses on some of the differences that exist between districts in communities with high and low levels of SES due to differences in preferences, needs, and norms within a community and school district.

Merz (1995) finds that ESOs that raise less than $10,000 annually primarily support schools and districts through mini-grants and scholarships. Foundations that raise $20,000 to $50,000 are more likely to focus on curriculum enrichment programs, teacher training, and teacher resources. The ESOs that raise the most money and support the larger districts or the wealthier ones often support teaching positions.

In a study of voluntary contributions to urban schools in Houston, Texas, Longoria (1999) finds that differences in school characteristics, such as affluence and diversity, do not significantly impact the number of partnerships a school has but do impact the type of partnerships a school has. The partnerships the schools have correspond with needs and preferences of the school. For example, some schools may have more demand for new athletic equipment whereas others have a greater need for more instructional and support staff or classroom resources. Zimmer et al. (2001) come to similar conclusions in a study of Los Angeles and point out that the spending patterns differ between higher and lower income districts. Parental support is greatest in higher wealth districts, and lower wealth districts receive more contributions from large external sources like government grants and corporate donations. Although total voluntary contributions accounted for only 2%-5% of a district’s total budget, wealthier districts

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⁷ There is a large volume of news articles over the last 20 years on this topic. The articles range from “feel good” stories to articles criticizing schools and districts for “selling out” to corporations. Since the literature on this subject is relatively limited, many of the authors referenced in this literature review cite dozens of these types of local news articles as anecdotal evidence of patterns in voluntary contribution trends.
receive more in kind volunteer hours or donations as well as direct individual or family donations (Loeb, Grisson, & Strunk, 2007). High wealth areas typically apply their VCs to long term investments such as programs, services, athletics, building enhancements, new instructional materials, and special events (Zimmer et al., 2001). Lower income districts receive more in kind short-term donations, such as materials or supplies from businesses, as well as more funds and donations from private philanthropies and organizations targeting the effects of poverty and the unique needs in urban education. They tend to spend their funds on technology, curricular enrichment, and professional development.

The research consistently shows that parents in wealthier communities have more time and more resources to contribute. VCs are also increasing in lower wealth districts, but only as far as large organizations or the government are willing to contribute. In the less wealthy areas, however, there are many more students and insufficient VCs to supplement public education to the degree seen in higher wealth areas. The preferences and needs of the community further determine how successfully VCs impact the educational opportunities.

One piece missing in the current literature is an updated estimate of VCs and how they are distributed among districts by a measure other than family wealth. Also, in future research on voluntary contributions, it will be important to not only understand the motivations of nonprofits, schools, districts, and other types of donors as they engage in voluntary contributions, but also their different roles and impacts on achieving educational outcomes. Finally, this literature review highlights the lack of research on the real impact and potential usefulness of ESOs since districts and schools do not actually know how much revenue they bring in or how it is used.

4. Conceptual Framework

In the policy world, nonprofit organizations, like ESOs, can also be thought of as intermediary organizations; they act as conduits between the community and government
institutions. It is important to pay attention to, study, and understand the trends in nonprofits overall because they highlight and respond to minority concerns in communities (Weisbrod, 1988). Anheier (1988) studies nonprofits in Germany and suggests they better reflect the desires and structure of society than do formal institutions and contemporary government. Weisbrod (1988) points out that nonprofits often to overcome government failures. In other words, they can act as a mirror reflecting what pockets of the larger community value and also indicate areas of high public need.

In the United States, nonprofits respond to policies, they affect change, influence policy, and they are powered by the wants and needs of the community. DiMaggio and Anheier (1990) propose that understanding these influences and the role nonprofits can play in shaping and responding to public policy is very useful when planning for future success and understanding the dynamics and functions of nonprofits. Understanding the underlying assumptions, beliefs, systems of concepts, and the theories about nonprofits, then, becomes central to the success of this research. Miles and Huberman (1994) define a conceptual framework as a visual or written construct that “explains, either graphically or in narrative form, the main things to be studied—the key factors, concepts, or variables—and the presumed relationships among them” (p. 18). Figure 4.1 shows a conceptual framework of the environment that surrounds and impacts ESOs’ capacity building. The greatest emphasis in this research is on the impact of SES and demographic factors as well as the values, preferences and social norms in a community.
The underlying assumption this model expresses is that “[e]nvironmental factors constantly push and pull institutional relationships” (De Vita & Fleming, 2001, p. 14). In particular, economic factors, such as the recession or budget cuts to schools, play important roles in stimulating growth in ESOs, but it is really the cultural norms and the SES around the school district that mediates the spending on education and extracurricular support. Political factors also influence the growth of VCs. In this project, the politics of the Serrano ruling, the education finance system, and Proposition 13 tax limits create the desire and demand for ESOs.

Socioeconomic (SES) and demographic factors, such as the number of minority students and the wealth of families in the district, however, impact who can and cannot afford ESOs. The SES and demographic environment directly relates to the values, norms, and preferences of the community, which determines how funds are used. De Vita and Fleming (2001) say, “[v]alues and norms undergird and affect each of the other conditions and relate to a sense of justice, fairness, and equity embedded in a community” (p. 14). The authors conclude that to have a sustainable and large capacity, nonprofits must “successfully navigate these environmental factors” (p. 14).
Due to the current concerns over VCs and equity, this project primarily focuses on the SES and demographics environment as well as the way the values, preferences, and norms contribute to inequality in the distribution of these private resources. In the discussion and policy recommendations section, this model will frame the discussion and help explain why different districts may have different patterns of giving. Finally, this framework is also important because it places ESOs in the broader literature of nonprofits, which are essentially organizations that fill service gaps for government institutions and businesses.

5. Data and Methods

5.1. Data

There has been a historical lack of quantitative data on ESOs and VCs in public schools. One reason for this is that schools do not need to keep detailed accounts of how they use VCs. These private dollars are not tracked by the state and thus there is little transparency when it comes to how much VCs schools and districts receive and what they do with them. Typically, VCs are combined with other local revenues from library fines, investment dividends, and parcel taxes and fall under the “local miscellaneous” category in the district budget. They are not discernible in district budgets.

This project, like Brunner and Sontelie (1996), and deLeon et al. (2010), uses data from the Urban Institute’s National Center for Charitable Statistics (NCCS) to estimate the contributions. NCCS is a program at the Urban Institute dedicated to collecting and managing databases containing the IRS filings from all 501(c) nonprofits in the United States. This database provides ESOs’ names, locations, and revenues for this project. Nonprofit organizations are required to register and file IRS 990 forms if they raise over $25,000 annually. Although this source does not provide data on all nonprofits, it is broadly representative of the trends in the nonprofit sector. This project uses the Core Data set which consists of all filings from Private
Foundations and Public Charities between 1989 and 2010. The NCCS website describes the set as cleaned versions of their master files which “combine descriptive information from charities…with financial variables from the form 990.” They are updated annually and are prepared separately for private foundations (PF) and public charities (PC). This project combined the PC and PF files each year into one file and then those years were appended together to create a longitudinal dataset. Currently, the 2008-2010 years are incomplete and were not included. In 2007, 39,536 nonprofits filed in California and 8,073 were classified as supporting education. After cleaning, the final count of ESOs in this project is 5,222 organizations. The number of ESOs each year ranges from 500-3,000.

The NCCS database contains identifying information such as the employer identification number (EIN), name, address, city, county codes (FIPS), as well as financial data such as revenue and expenditures. The data also contain variables, such as the National Taxonomy of Exempt Entities (NTEE) codes and activity codes, to help classify the organizations by sector. Previous research by Brunner and Sonstelie (1996) and Brunner and Imazeki (2007) only includes organizations that self-identify as ESOs through this classification system, but there are hundreds of organizations that file without properly or consistently identifying their specific activities. To try to improve the accuracy of the estimates, this research also adapts a sorting method deLeon et al. (2010) use when they use NCCS data to estimate the total number of ESOs in the United States. DeLeon et al. (2010) use the Urban Institute’s data but search all NTEE codes that pertain to public education to identify ESOs. In this project, I also sort through all the nonprofits pertaining to education and utilize several different ways of searching for and identifying ESOs beyond just looking at their classification. One reason for taking extra care when sorting through ESOs is that since this project examines their growth, it is important to capture the same

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8 The Core Data for the Private Foundations was not available for 1993. While there are data from Public Charities, the estimates may be lower than expected due to missing a large number of cases.
9 This is because, unlike personal or business taxes, there is no deadline or standard fiscal calendar for filing nonprofit tax returns, so many organizations do not file their current year until several years later.
organization each year, regardless of whether their activity code changes or is missed by the frequent rotation of volunteers filing on behalf of the organization. By refining previous cleaning methods, I am also able to look at annual trends, as opposed to only looking at one or two years of data (deLeon et. al., 2010; Brunner & Imazeki, 2003).

To analyze the impact and distribution of ESOs, this research also includes data from state and national education databases. In addition to the data from NCCS, the National Center for Education Statistics (NCES), California’s Department of Education, and their partner for reporting financial, demographic, and achievement data, Ed-Data, provide information about the school districts in which ESOs are located. These sources collect and disseminate extensive and detailed data on students, schools, and districts.

5.2 Methods

This research considers several measures to assess the growth, distribution, and equity of voluntary contributions in California. While some of these measures are highly correlated, the goal of looking at a variety of indicators is to obtain a more complete and current description of where voluntary contributions are concentrated. California’s education system is home to many challenges, and these variables and analyses help highlight those areas and how voluntary contributions reinforce or detract from those problems.

5.2.1 Measuring Growth

To measure the growth of ESOs and VCs, this project starts with the nonprofit data from NCCS and cleans it for the ESOs in California 1989-2007. ESOs are classified into four categories: teacher groups, booster organizations, education foundations, and charter foundations. Since charter schools report both their public revenue and voluntary contributions on the IRS 990 form, however, charter foundations were not included in any of the final analysis as there was no way to separate the private and public dollars. The data are matched with school districts by
matching county codes, zip codes, addresses, cities, and in some cases, the ESO’s name with data from the NCES and Ed-Data databases. Once the organizations are matched, the total revenues for the districts are calculated and adjusted for inflation to 2005 dollars. The ESOs are also classified into elementary, secondary, and unified school districts based on their corresponding district.

These data cleaning measures make it possible to estimate the total number of organizations that raise over $25,000 each year, broken down by type of ESO. Furthermore, the total real revenue for each of these districts and types of ESOs are estimated. The total real revenue for each district was divided by the same year’s Average Daily Attendance (ADA) to calculate a per pupil average.

Since the literature and the conceptual framework indicate that the amount of public spending has an impact on the growth of private spending, I also look at the growth rate of VCs compared with that of public financing. Ed-Data keeps a record of the total revenue the district receives from the state, local, federal governments, and local miscellaneous sources. “Public revenue” for this project was calculated by adding the state, local, and federal funds for each year, adjusting for inflation, and matching the totals to the districts with ESOs. Using the public revenue over time as a reference, this project examines the correlation between changes in public spending and private spending on education.

5.2.2 Measuring Distribution

To investigate distribution patterns, this research uses scatter plots and univariate ordinary least squares (OLS) regressions to describe which districts receive the highest levels of per pupil voluntary contributions. All of the scatter plots use the most recent VCs per pupil estimates from 2007 and analyzes their distribution across the districts. The first equity measure I look at is how per pupil voluntary contributions are distributed by wealth. The percent of students
who have free or reduced lunch (FRL) is a common measure of student-family income and is a common education research measure for estimating SES. The second way of analyzing distribution is across student demographics. Students who are enrolled as English Language Learners (ELL) are unevenly distributed between schools and are typically concentrated in schools with fewer community resources. The third environmental influence on the distribution of these resources is the district’s size. Student enrollment, measured by Average Daily Attendance (ADA), provides the estimated number of pupils in a district. ADA is also the number of students used by the state for calculating per pupil expenditures, and so is the measure of enrollment used in this research to estimate per pupil revenue raised by ESOs. The final way this research examines distribution is by looking at the relationship between achievement and voluntary contributions. The adequate Performance Index (API) is the state standardized score for schools, which measures their adequacy and improvement. The API was established by law in 1999 and is used as a tool for managing academic accountability. The single score ranges from a low of 200 to a high of 1000. Changes in student achievement scores from year-to-year on statewide assessments are used to calculate the API. API scores are included because ultimately, the underlying concern about the impact of ESOs is that they are creating disadvantages. There is an expected correlation between VCs and achievement because high achievement and high SES are correlated.

To help analyze and summarize the scatter plots, the R-squared and univariate beta coefficient are calculated to indicate the strength and direction of the relationships between VCs and these district characteristics. None of the relationships are assumed to be causal, but knowing the direction and strength of the relationships provides researchers and policymakers vital information on what can be altered to create more equity across the system. In other words, combining what we learn from these correlations with knowledge about ESOs and district needs can inform policy recommendations that capitalize on the amount of money ESOs bring in.
5.2.3 Measuring Equity

This analysis also uses state public per-pupil spending to estimate the impact voluntary contributions have on horizontal equity. As mentioned earlier, there are many ways to measure equity in education finance systems, but horizontal equity is particularly relevant to this research because California’s centralized funding system aims to minimize the unequal distribution of resources to students across the state based on wealth of their community. For this analysis I use data from California’s Department of Education and an estimated per pupil average of private contributions for each district to capture the impact of private contributions on horizontal finance equity.

Calculating the coefficient of variation (CV), or standard deviation divided by the mean, is one way to measure horizontal equity in education finance systems (Odden & Picus 2004). The CV is one way of describing how far away from horizontal equity a funding system falls. According to Odden and Picus (2004), a CV of 0.1 or higher indicates horizontal funding inequity. By looking at the trend in CV over time, I summarize how ESOs are impacting equity, and also what the general trend of horizontal equity is across California.

This research examines the CV of public per pupil spending by district as well as public plus private spending per district over nine consecutive school years. A district’s public revenue is calculated by adding the state, federal, and local property taxes. Miscellaneous local funds are excluded from that total. After the CV is calculated for the public revenue, the district’s private per pupil contributions are added to the public spending and the CV is recalculated. The two CVs are compared to see if including the VCs increases, decreases, or maintains horizontal equity compared with the level that exists under public funding alone. Calculating the CV is particularly important in this analysis because it helps address the lingering concern over the

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10 The public funding estimates are only available for nine years because the state only has a limited record of district revenues. (Ed-Data, 2012)
impact of private contributions to public schools. This measure shows to what degree voluntary contributions add or detract from horizontal equity.

5.3 Limitations

There are several limitations with using these data and approaches, which are taken into consideration when drawing conclusions in this project. As mentioned earlier, a large hurdle in ESO research is that districts do not track all money they receive and spend consistently. As a result, districts have a hard time summarizing how they spend specific funds, and so these estimates are quite conservative. Another limitation to this study is that unlike Brunner and Sonstelie (1996), this project does not include an estimate of ESOs in California that raise less than $25,000 each year. In their study, the authors use data from the Attorney General’s Office to count the number of ESOs that raise under $25,000 per year. Unfortunately, the Attorney General’s Office data are no longer available. One recent study estimates 35% of schools across the United States have ESOs that raise between $10,000-$25,000 (NAESP, 2007). Unfortunately, this research does not capture that group of ESOs. Even with the subset of school districts analyzed in this research, there is no reason, given previous research, to expect the missing school districts to raise enough voluntary contributions to severely change the estimated total of VCs for the state. The ESOs in this analysis are primarily in the largest urban areas, are in the districts with the largest student populations, and would therefore have the greatest impact on equity. The districts left out of this research are smaller and most likely their contributions would not do much to change the pattern of distribution described in this essay.

Along with conservative estimates of the monetary contributions, this research does not include estimates of the quantity or value of in kind donations, volunteer hours, or other non-monetary contributions to the districts or students. The implication of this limitation is that without considering these nonmonetary contributions, it is difficult to draw accurate conclusions regarding the distributional equity of voluntary contributions. Especially in light of the concerns
expressed in the media reports of private contributions, nonmonetary contributions are potentially a larger driver of inequality between districts, and yet even less is known about them than voluntary contributions estimated in this research. Because of the lack of records of these types of contributions, this research can only make modest claims with regard to the inequity that may or may not result from private contributions. This research focuses explicitly on the monetary contributions that can be estimated, but does not attempt to draw sweeping conclusions about the impact of all private giving patterns to public schools.

This research also does not estimate the amount of VCs going to particular programs or areas in the districts. It is unclear from the IRS financial data how the money is allocated and which students or programs benefit primarily from the contributions. This is important to note given the concern over equity. To better estimate distribution at this level of detail, a qualitative study or a revised method of documenting VCs would be necessary.

There are also limitations in the data from NCCS. The Urban Institute’s handbook about the data explicitly states: “our limited resources do not permit systematic in-depth verification of every record. If your focus is on individual organizations or on categories where a few large organization account for the majority of financial activity or resources, we strongly advise that you include inspective finance data for dominant individual organizations” (Urban, 2006, p. 2). Since specific organizations are vital to this analysis, I take extra care to check the purpose and district affiliation of the highest grossing ESOs (those averaging over $500/student).

Another potential issue with the data is that there are possible inconsistencies in the annual estimates of gross revenue. Since there is no deadline for filing IRS 990 forms, there may be holes over time. The Urban Institute works to update the files and minimize the possible gaps that occur due to volunteer or ESO leadership turnover, but organizations may not have consistent filing practices.

There are also challenges identifying the ESOs from the NCCS files. After excluding the cases that are most likely not ESOs, the cleaning is done by hand through a series of manual
searches and categorization. This may result in some oversight. Special care was taken to make sure that all of the largest earning organizations are in fact ESOs. The data are also limited in that the origins of the revenue are unknown. From the NCCS files, it cannot be discerned if the money was from local contributions, larger organizations, or if it was earmarked for particular projects.

District assignments may also be incorrect in some cases because the district codes are not originally part of the NCCS data. Districts are matched and assigned based on other ESO details, such as zip code, county, and address. This presents a few potential issues. The first is that sometimes the address of the ESO is not in the district that they serve. In some cases, the district matched with an ESO may be mismatched. This has implications when it comes to calculating the average per pupil revenue because if the enrollment for the real district is different than the assigned, it will result in incorrect estimates. The highest grossing ESOs are checked individually for this problem, but the error may still exist in other places throughout the dataset. Another issue is that some of the matches may be incorrect because the zip code used to match the district may have more than one district affiliated with it. In these cases, this project assigned the larger district to avoid overestimating the average contributions in smaller districts. This is an area of the process to be refined further. Because of this limitation, again, the conclusions of this essay are modest estimations of the distribution of resources, but will not claim to be exhaustive measures of the private giving across the state.

Another issue with the cleaning process is that since the ESOs are sorted mostly through classifying them in large groups based on “likely” descriptions of ESOs, there may be a few cases that are still not true public school ESOs. While this research does improve upon the accuracy of cleaning the data from the NCCS by including more than just the organizations that identify themselves as an ESO, there is still the possibility of mis-assigning an ESO. The more problematic previous method, however, left out many more ESOs and also did not use the cleanest or most accurate versions of the data.
In terms of the other data used in this project, there are several limitations that should be considered as well. The first is that using free and reduced lunch percentages may not encompass all students who are eligible for FRL. Some of the higher level students do not always sign up for FRL, even though they are qualified. For the general purpose of looking at the trend of VCs compared with family income levels, however, this method is sufficient.

Finally, even though charter school foundations are identifiable in the NCCS data, their VC estimates are not included. When a charter school files their 990s, it includes both the private and public dollars they receive (A. Miller, personal communication, March 28, 2012). If charters were included, it would misrepresent the amount of voluntary contributions they add to the total.

6 Results

6.1 Answering question 1: Growth

In this section, growth of ESOs and VCs are measured in a variety of ways. These graphs show steady growth between 1989-2007, which indicates more people are getting involved, schools are receiving more money from ESOs, and ESOs are increasingly successful. All of the graphs in this section look at the growth over time adjusted to 2005 dollars. Most of them show 18 years of data, but figure 6.5 only shows five because these were the only years the public revenue data were available.
Figure 6.1 shows that the number of ESOs grew almost every year. The recession in 2001 may explain some of the dip in organizations at that point. The graph shows the total number of ESOs each year, broken down by type of organization (parent group, foundation, and booster). These results represent the 512\textsuperscript{11} districts that raised over $25,000 in VCs each year. By 2007 there were 3,035 ESOs that raised over $25,000 per year. These data only show ESOs from 512 districts, however, so the average in these data is six ESOs per district. By far, parent teacher groups make up the largest portion. In 1989 there were 325 parent teacher groups and by 2007 there were 2,093. Most of these are associated with elementary schools. The number of foundations more than quadrupled over the 18 years, growing from 87 to 440. Booster clubs grew at the slowest rate, yet more than tripled--growing from 130 to 502 organizations.

\textsuperscript{11} 488 is the final count for the number of districts with ESOs in this dataset. There were more before excluding charter schools, and it is important to note that not all districts are represented in the total county of ESOs each year.
Following Brunner and Sonstelie (2003), I examine the total real growth in voluntary contributions over time. Figure 6.2 shows the total real revenue ESOs generated each year. There is relatively steady growth of revenue from ESOs, and the rate increases slightly after 1998. Interestingly, even though there are fewer ESOs in 2001 (during a recession), there is continued growth in revenue through that time. This may indicate that voluntary contributions are needed even more during times of fiscal stress and ESOs are successful in filling that need.

Previous research estimates that if the total revenue from all ESOs was divided equally among all the districts across the United States, VCs would make up only 0.3% of districts’ budgets (Green, 2005). In California, however, the average public per pupil spending is low and the revenue from ESOs is quite high. Loeb et al. (2007) estimates that in California this figure is closer to 2%-5%. While this is a relatively small percent of the annual budget, the ESOs in the 509 districts in this analysis result in an average of $844,000 per district. It is important to note that this is an average and does not take into account the fact that some ESOs raise a lot of money for very large districts. When the revenue is divided by the thousands of students, and split between the different activities, ESOs end up having a much smaller impact than it would seem at first glance.
Figure 6.3 shows the total real revenue generated across California by type of organization. Broken down by type of organization, we see in the figure that foundations have grown to generate the most revenue, although that growth is mostly after 2000 and quite volatile. This makes sense because they are typically serving an entire district and meeting many different needs, as opposed to boosters and parent groups that typically serve a single school or activity.

Up until 2000-2001, however, the parent groups and foundations were contributing almost equal amounts. Booster clubs have remained the lowest producing of the three types. One explanation for this split in high and low earning ESOs may be the higher political influence and stronger networks that parent groups and foundations have relative to booster organizations. Foundations and parent organizations today rely heavily on the networks, national organizations, and technological advances and communications that have been built over the last decade.

Furthermore, foundations are heavily involved in district policy and are especially responsive to government policies because they advocate for the schools and districts. Parent groups also are well known for their political involvement, and so the growth in parent groups and foundations may reflect the growing influence these organizations have on district and state level policies.
As mentioned above in the discussion of figure 6.2, large real revenues or numbers of ESOs per district do not necessarily indicate high levels of per pupil spending. For the Long Beach Unified School District, where the average household income is $40,000, there are 47 ESOs that each raise over $25,000 per pupil and their average per pupil revenue is $39. Down the coast in Laguna Beach Unified School District, where the average family income is $146,562, a total of nine education nonprofits raise enough VCs to contribute an additional $858 per pupil.

Figure 6.4 shows the average per pupil amount that ESOs added to districts. The average increases from $65 in 1989 to $172 in 2007 (with a maximum of $189 in 2006). In a classroom of 20 students, this type of additional funding would provide a little over $3,000. One thing to note is that the number of ESOs has increased over 600% in the last 18 years, and yet the average revenue generated per pupil has only increased about 250%. The rate of growth and popularity of the ESOs as organizations and district affiliates seems to be much more prevalent than their economic contributions.
Figure 6.5: Private per pupil spending trend compared with public per pupil spending trend

Figure 6.5 shows both the change in average public spending (minus miscellaneous local revenues), and the average per pupil revenue from ESOs. The bars show that after 2006, there is a decrease in both public and private revenue. The VCs do not appear to be compensating for public loss as they generally move in tandem with public spending. This, however, is not a conclusion of this research because there are insufficient years to compare the two rates of change. Given the continued growth of ESOs and the steady increase of the VCs over time, and shrinking budgets in California, there may be a greater rate of increase in VCs compared with a decrease in the state budgets. What we do see, however, is that with a relatively stable economy, private contributions and public revenue both grow. If the trend that we see in all the other previous figures continues, the total real revenue of voluntary contributions and presumably the average per pupil revenue will continue to rise. Simultaneously, however, the public funding does not surpass its high point in 2006. One thing for future research to investigate is the longer-term relationship between public and private revenue trends. Particular attention should be paid to recession periods, because from what we know about environmental influences, a recession should decrease the revenue ESOs produce. However, based on the literature, anecdotes, and the norms and preferences of communities that respond to budget cuts from the state, we should see increases in ESO revenue. Unfortunately this figure does not capture what happens around 2001 or after 2007. With increased numbers of ESOs and VCs, the results shown in these five figures
indicate that the political influence and cultural normalcy of ESOs are growing. ESOs are assisting more districts, and steadily bringing in larger amounts of additional revenue for the districts.

6.2 Answering question 2: Distribution

Each scatter plot below shows the relationship between the per pupil average of VCs in the district and another district characteristic. These scatter plots show the distribution of voluntary contributions and how they correlate with various measures of SES, diversity, and achievement. There are nonlinear relationships in all the figures. Figure 6.6, 6.7, and 6.8 include a line showing the inverse relationship and figure 6.9 shows a quadratic relationship. The figures list both the linear and nonlinear beta coefficients. These scatter plots only use data from the 2007-2008 school year. All of the dollars are adjusted for inflation to 2005.

Figure 6.6 Average district voluntary contributions compared with the Average Daily Attendance (ADA) in 2007 (Controlling for LA Unified)

Univariate beta coefficient = -0.2278**
Univariate R-Squared = 0.0519

Inverse beta coefficient = 0.2632**
Inverse R-squared = 0.0693
Figure 6.6 shows the nonlinear relationship between voluntary contributions and the number of students in a district. The correlation controls for the Los Angeles Unified School District because there are almost six times as many students there as in any other district and it becomes more difficult to see the pattern when it is included in the figure. The linear relationship is significant and negative. The inverse beta coefficient of 0.2632 indicates that there is more variation in the smaller districts than the larger ones. The districts that exceed $500 per pupil in VCs are all smaller than 12,000 students and the districts exceeding $1000 are all under 2,000 students. As the graph and the inverse beta coefficient indicate, there is more variation across smaller districts than larger ones in terms of the ability to raise large private per pupil revenues. By sorting the districts by size and level of VCs, it becomes clear districts that are smaller tend to also be the more affluent suburban districts. As expected, the smaller districts have higher per pupil amounts more frequently than larger districts. This finding is consistent with the previous research, but in this graph we also see that 10% of the 512 districts in this analysis raise over $500 per pupil. The indication is that the distribution in districts receiving high amounts of VCs is growing and that there are greater inequities emerging over time.

Univariate Beta Coefficient = -0.2818**
Univariate R-squared = 0.0794

Inverse Beta Coefficient = 0.1467**
Inverse R-squared = 0.0215
In figure 6.7 we see higher rates of ELL (Y-axis) correlated with lower average private per pupil revenues (Y-axis). As the percent of students who are ELL increases, there is a decreasing chance that the school will have a large average per pupil revenue from voluntary contributions. There are only very marginal changes in the variation of the amount of revenue that ESOs contribute in districts with high percent of ELL students. This measure of distribution has a low R-squared, indicating the correlation is weaker in this area than the others in this section of analysis. It is still useful to note, however, that the districts with the highest percentages of ELL students receive the lowest levels of additional resources. This is especially troublesome in California because the state has one of the highest rates of ELL students in the country, and yet the data reflect additional resources going to the districts without the same types of barriers to success. As is consistent in California education finance, the districts with students who cost the most to educate receive comparably less additional resources than the districts with students who require fewer resources.

![Figure 6.7 Average district voluntary contributions compared with percent of the students who are English Language Learners](image)

Univariate Beta = -0.3202 **  
Univariate R-squared = 0.1025  
Inverse Beta Coefficient = 0.4306**  
Inverse R-squared = 0.1854
Figure 6.8 Average district voluntary contributions compared with percent of the students who have Free or Reduced Lunch

As expected, the correlation and relationship between the percent of students with free or reduced lunch and the average voluntary contributions looks very similar to that of the ELL students. Figure 6.8 shows that, in general, districts with more students with FRL receive lower average private per pupil revenue. This trend contributes to a wider gap between the capacity of the high and low wealth areas. Compared to the trend in figure 6.7, however, there are more outlier districts\(^\text{12}\) that have both a high percent of students who receive FRL and also generate over $500 per student in voluntary contributions. The indication is that the districts with more racial diversity are receiving less of the benefit from VCs than their less diverse counterparts.

Univariate Beta Coefficient = 0.3382**
Univariate R-squared = 0.1108

Quadratic Beta Coefficient = 6.2133
Linear Beta Coefficient = -5.870
Quadratic R-squared = 0.2032
Inflection point = API Score 755

Figure 6.9 Average district voluntary contributions compared with District average Academic Performance Index (API) score

\(^{12}\) Outliers were identified by comparing the characteristics of the districts that were most successful generating additional per pupil revenue across all the measures in the distribution analysis
Brunner and Imazeki (2003) hint at the relationship that may exist between student performance and levels of voluntary contributions. This project takes a first step at looking at that relationship by investigating the correlation between contributions and state measured academic success. There is a significant and positive relationship between the districts that receive the highest API scores and the highest per pupil voluntary contributions. As stated earlier, this correlation does not imply causation, but it is clear that the schools benefitting from voluntary contributions are also successful academically when compared with their peers. The 20 districts raising the highest private per pupil revenues have enrollments between 83 and 4,200. In all districts, less than 10% of students are ELLs; between none and 55% of their students qualify for FRL. The API scores range from 735-956, although only two of the districts in the top twenty ESOs score under 890. The public per pupil spending also has a wide range, between $7,100 per pupil and $22,000 per pupil. There is quite a lot of variation in these high averaging districts, however. The highest averaging district, Mill Valley Elementary in Marin County, receives $7,300 from public revenue and generates $3,100 from VCs, making up nearly 30% of their annual budget. This case, while an exception in terms of the extraordinary amount of their annual budget that comes from ESOs, shows that not all of the districts that are successful with VCs are contributing to huge wealth disparities. On the other hand, Montecito Union Elementary school district generates $1,400 per student from private contributions and adds that to the $22,000 they receive from public funding and end up with twice as much revenue as most of the other districts in the state. This level of analysis indicates that both anecdotes about VCs are valid: schools are making up for shortcomings in their budgets, and some districts really at a much higher advantage at securing more private contributions. One of the highlights of this analysis is that there are not only differences in the levels of VCs but also the districts that are most and least successful at securing them. The larger issues of equity in the distribution of resources are already very apparent in this analysis.
While only around 10% of ESOs raise over $500 per pupil, these districts are also the schools with lower levels of ELL students, lower levels of students from low SES backgrounds, and higher levels of students who score high on the API. Compared with estimates from 2001, there are at least five times as many districts that are bringing in high levels of VCs. Over time, the growth of ESOs combined with the way private contributions are distributed is heading toward more and more disparity between the high and low achieving students. Resources from ESOs are being distributed across a greater number of districts but a disproportionate amount of those resources go to a group of select districts.

6.3 Answering question 3: Equity

Up until now, the review of the data has shown the growth and distribution of VCs, but has not yet directly addressed the question of equity. From the scatter plots, we see clear patterns among districts, but do those trends translate into a horizontal equity problem? Table 6.1 below shows some interesting results regarding the equity of public and private revenue in California over time. Four outlier districts that average over $20,000 per pupil were not included in calculating the coefficient of variance (CV).

The first thing to note in table 6.1 is that the CV for the public spending (column two) is consistently above the 0.10 cut off point for horizontal equity (Odden & Picus, 2004). This indicates that the public funding system in California is highly unequal and does not provide equal financial resources to all districts. One possible contributing factor to this horizontal inequity is that over 10% of the districts exceed their revenue limits and bring in higher revenue than districts that only receive up to their revenue limit. Another possible contribution to this inequity is that districts receive more categorical funding from the state when they have more students with higher needs. This is unlikely the main cause of the inequity, however, because categorical funds only make up about 20% of the state funding for districts. While that is enough
to contribute to some inequality, the greater source of inequality exists because of the revenue limits. It is also important to note that the inequality is growing in terms of public spending across the districts.

<table>
<thead>
<tr>
<th>School Year</th>
<th>CV Public</th>
<th>CV Public + Private</th>
<th>Change in CV</th>
<th>Avg. Percent Private makes up total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999-2000</td>
<td>0.228</td>
<td>0.243</td>
<td>0.025</td>
<td>1.4%</td>
</tr>
<tr>
<td>2000-2001</td>
<td>0.245</td>
<td>0.281</td>
<td>0.036</td>
<td>1.2%</td>
</tr>
<tr>
<td>2001-2002</td>
<td>0.259</td>
<td>0.296</td>
<td>0.038</td>
<td>1.3%</td>
</tr>
<tr>
<td>2002-2003</td>
<td>0.291</td>
<td>0.313</td>
<td>0.022</td>
<td>1.6%</td>
</tr>
<tr>
<td>2003-2004</td>
<td>0.311</td>
<td>0.336</td>
<td>0.025</td>
<td>2.1%</td>
</tr>
<tr>
<td>2004-2005</td>
<td>0.322</td>
<td>0.340</td>
<td>0.018</td>
<td>1.8%</td>
</tr>
<tr>
<td>2005-2006</td>
<td>0.347</td>
<td>0.361</td>
<td>0.014</td>
<td>2.3%</td>
</tr>
<tr>
<td>2006-2007</td>
<td>0.343</td>
<td>0.353</td>
<td>0.010</td>
<td>2.0%</td>
</tr>
<tr>
<td>2007-2008</td>
<td>0.343</td>
<td>0.347</td>
<td>0.004</td>
<td>2.1%</td>
</tr>
</tbody>
</table>

Table 6.1 Measuring the Coefficient of Variance (CV) for Public and Public + Private contributions

Moving on to the CV for the public plus private contributions we see that the horizontal inequity increases slightly but consistently each year. The private contributions make up a small percent of the total district revenue (as shown in the far right column), so it makes sense that there is not a large change between the public and public plus private spending. The private spending does, however, consistently contribute to greater levels of horizontal inequity. The share of the total revenue contributed by private sources increases over time. Simultaneously, the difference in the CV between public only and public and private decreases over time. This indicates is that the voluntary contributions themselves are quite unequal, but that inequity seems to be decreasing. In column three, the percent change in CV steadily falls after 2003. In 2007-2008, there was less than a 1% change in equity after adding in voluntary contributions. It seems the direction in which private giving is impacting equity is shifting.

While horizontal inequity in California is becoming more pronounced over time, and voluntary contributions increase the level of inequity, the negative impact of private giving is
decreasing. The last two sections have shown that private giving is concentrated in smaller, wealthier, and less diverse districts, that there is a slight negative impact of private contributions on horizontal equity, but that this negative impact is decreasing over time.

7. Discussion and Policy Recommendations

7.1. Big Picture

This research indicates that there are unacceptable amounts of inequalities emerging from increased VCs as measured by standards of horizontal equity and the goals of the California public education system. While, over time, the horizontal inequities perpetuated by private giving are subsiding, the distribution of private resources is troubling. What seems to be happening with the voluntary contributions is they are contributing to an already present and increasing funding inequity in the education system. By looking at their growth over time, we see ESOs growing in number and size each year. While they remain a very small percent of the total annual budget for districts, the distribution of the highest and lowest earning ESOs is potentially problematic. Additionally, when considering the additional distribution of resources that anecdotally results from in kind donations, the inequality between how much districts receive may be much greater.

The highest earning ESOs are heavily concentrated in the small, wealthier, less diverse, and better performing districts. This becomes an issue because the needs in the schools with fewer VCs are in greater need of extra resources, staff, and revenue. The districts with the most VCs are also typically the schools that exceed their revenue limit and are already getting more public revenue per pupil than the less wealthy areas.

In the context of what else is happening in the education finance system in California, we see that the trends in ESOs reflect a strain on the system due to declining public revenue overall. The voluntary contributions increase, and while the number of organizations raising over $25,000 a year decreases in hard economic times, the total revenue continues to rise, despite having fewer
organizations. The distribution and equity assessment shows that there is imbalance across the system in terms of public spending, district characteristics, and voluntary contributions.

When looking at the trend in horizontal equity, there is a slow but steady increase in inequity that is made slightly more pronounced each year by the addition of voluntary contributions. While the extent to which the VCs increase this inequity is typically less than 1%, this is because the percent of the budget they make up is so small. Regardless, when equity is involved, one of the main questions is, what is contributing to it? In this case, the data show that VCs are contributing to an increasingly unequal finance system. A good sign, however, is that the degree to which ESOs contribute to horizontal inequity is decreasing. This is promising primarily because it indicates that voluntary contributions are growing more equal in terms of less well-off districts raising more VCs.

This shift in how private contributions impact horizontal equity may indicate that ESOs can help achieve a more balanced education system. As the number of LEFs, foundations and parent groups that work to fight inequities in the education system increase, there is a greater possibility that ESOs can bring more resources to the districts and students who need them.

To decrease the demand for and negative consequences of VCs, the education financing funding scheme in California would have to drastically change. It would have to adequately provide resources to all students to meet the needs as well as preferences of the individual districts and schools. One possible approach is to suspend Proposition 13 and to design a new funding system that would foster local control and satisfy the preferences of districts as well as the needs of the millions of students. Until a precise measurement and fulfillment of that level of funding becomes reality, private contributions will continue to proliferate. In light of all the challenges and tight budgets in California, voluntary contributions that actually help improve the opportunities for less well-off districts would be very useful. This, of course, depends heavily on several factors. It would be fundamentally unequal to simply increase the reliance on VCs without government oversight. That being said, districts can benefit from and contribute to more
horizontal equity first by strengthening their understanding of and relationships with ESOs. Second, local communities as well as governments, corporations, and other nonprofits networks, like LEFs, must continue to support ESOs and share the goal of a more equal education system. Third, the VCs must be applied to areas where they will help to achieve that goal.

7.2. Policy Recommendations

While inequality cannot be completely eliminated, it should be the goal of good policy to reduce existing and problematic inequality as much as possible. When there is a system as unequal and imbalanced as California’s, there are essentially two options in responding to inequalities resulting from voluntary contributions: either control what the more successful groups are doing, or else bolster the ability and capacity of the less successful districts. This research suggests both.

At the state level, one recommendation is to gain a better understanding of how much the private and local funding can support the education system. Loeb (1998) finds that wealthy communities withdraw support to school funding schemes that limit their local control. She finds that capping local support is the most effective way to both limit local spending and also keep wealthier communities contributing to the rest of the state’s schools. The same may be true with voluntary contributions. There may be a better way to both decrease the pressure on the state and also increase horizontal equity. As the state prepares for education finance reform that really tackles the issue of getting high need students the resources they need, with a limited budget, it is imperative to understand the ways to leverage local support for public education. There is building evidence that limiting local revenues does not limit horizontal inequity. With this in mind, it would be helpful for the state to rethink the structure of the finance system. More centralized state funding tends to lead to less funding and more inequity, so perhaps a hybrid
finance scheme that increases local property tax revenue, but sets aside some of that for redistributive purposes would be a better option.

For districts capable of generating high levels of VCs, one recommendation is for those districts to cooperate more with ESOs to target the areas of highest need across the district. This recommendation assumes these districts in California are negatively impacted by less than adequate public funding, that property tax limits will remain as they are currently, and that private contributions will continue to increase. On an individual basis, ESOs are not a large enough proportion of the revenue stream to make a large impact. To build the capacity of their ESOs, districts must improve their knowledge of and relationships with ESOs as to capitalize on all the revenue brought into the district. Connolly and York (2002) propose a framework and process by which organization can get a better handle on their nonprofit affiliates. The four main steps to this process are: (1) identify your nonprofits, (2) identify your needs, (3) form a plan, (4) and become more aware of and involved in the process.

Based on the Connolly and York model, districts can build and implement strategies to use ESOs in the most effective and useful ways for their schools. This means first understanding at a systemic level what power ESOs hold, what they currently leverage, what their goals are, and how they align with the district. Santa Monica-Malibu Unified School District has already done this by implementing a cooperative effort with the revenue from all ESOs within the district. They pool all the revenue from the district voluntary contributions redistribute the money to help pay for personnel (Yang Su, 2012). The district centralized voluntary contributions and now decides how to use the resources to help address the areas of highest need. This decision is controversial, and the potential drawback to this type of policy shift is that there is a risk of parents removing support. Overall, however, districts can still improve their relationships with and benefits from ESOs if they have a better understanding of how much money is coming in from them and in what way the ESOs and the school can cooperate and work for the best interest of the students.
For districts in lower wealth areas, I recommend state and federal policy interventions and incentive programs to address the gap between the ability of the high and low SES school districts to raise private contributions. This recommendation is for California, but also other states struggling to meet the needs of their highest need students. Districts in less affluent areas have fewer opportunities to raise local private dollars, and also do not have excess revenue from their property taxes to support their schools. As a result, these districts have fewer opportunities to exercise autonomy and assert local control over how they want to address the challenges they and their students face, leaving wealthier areas with a distinct advantage when it comes to creatively addressing the problems and goals of the district. Schools with local private contributions and excess tax dollars are freer to invest in areas and programs based on their preferences and concerns. Less wealthy districts do not have that same level of freedom. I recommend developing support for current regional, state, or federal networks that respond to this unequal distribution of power in the hands of local communities. These organizations, like LEFs, work to improve the conditions for students impacted by low community SES through financial and advocacy work. Adding more support for the communities with students who are farthest behind their peers will help offset the inequality associated with the growth of ESOs. Government intervention as a way to equalize the playing field between the high and low power players in the system not only contributes to equity, but also better social and education policies which will result in better outcomes and benefits for the entire state.

Along with developing the infrastructure at the school and district level to connect with resources, programs that encourage lower wealth districts can be supported. Government or private industry assistance to districts can support districts in asserting local discretion and reduce the inequality between the higher and lower wealth districts. These state or federal policies may include creating incentives for private corporations to contribute specifically to the highest need districts. Grant programs could focus on particular areas or programs within the district aimed at increasing student achievement and opportunities. The role of the government should be to
empower the districts to address the biggest areas of concern within their schools. Alternatively, businesses may respond to tax incentives where they receive benefits for providing support to their local communities in a way that shows a positive contribution to improving the outcomes for students.

While the immediate community in low wealth areas do not have the financial resources to generate additional revenue, outside organizations can connect districts with resources. Districts with very diverse and low-income populations should continue to network and build relationships with the community and outside partners. This outreach, combined with state and federal incentives, can help tip the balance and move toward a system of greater equity. When a district knows what it needs and has partnerships in the community, it stands a much better chance at making positive changes than if it tries to do things alone. One recommendation based on current research on nonprofits suggests that if ESOs develop their networks and increase political connections it may lead to increased revenue and equity.

The next recommendation is to improve the process, transparency, and reporting method for VCs collected by districts, charters, and schools. A better record keeping system may include school level accounting of all the revenue brought in, by which organization, and its use. While this adds to the administrative responsibilities of schools, it would serve two useful functions. The first would be to the schools and districts themselves, because having a better understanding of the flow of private donations could help them plan around the VCs and also strategize how to increase contributions or distribute the funds in ways that serve more students. Public funding does not seem to be increasing, and California has more needs and wants than can be satisfied by the current revenue, so using VCs with maximum effectiveness for the districts can help them meet their goals. The second benefit to an improved reporting system is that the information would be more transparent for the public. Part of the motivation for this project was that there is a large public concern over the equity implications of ESOs, and yet there was very little readily available quantitative data and virtually no simple way of estimating the actual effect. An
improved and clear reporting system would make it easier to check the facts rather than depend on anecdotes.

A final area that would benefit from a new reporting system is charter schools. Currently there is no separation between the way they report their VCs and public revenue, which makes even describing their financial system virtually impossible. Requiring charters to distinguish between public and private revenue as well as how it is spent would be helpful for further finance system research and research into effective or ineffective practices.

Conclusion

NAESP’s executive director, Vincent L. Ferrandino says: “Until our schools begin receiving the appropriate funding necessary to purchase these resources which in many cases are very basic items that all schools should have, we will continue to see an increase in the number of fundraisers.” (NAESP, 2007, p. 1). ESOs are one way that communities try to compensate for what they perceive as lacking in their schools, but there are negative normative implications if ESOs continue to expand in their current pattern. The proliferation of ESOs in the California has led to concerns about equity and called attention to diminishing public state funds. Although local autonomy is a legitimate value, the level of inequality of opportunity for districts to raise VCs and exercise autonomy and discretion over those funds seems to violate the goals of equal opportunity in public education for the students. State and federal policies, then, have the opportunity with targeted public policy to promote a more balanced and adequate resource pool for all districts. This research shows that while there are pronounced disparities in the types of districts that receive voluntary contributions, the degree to which the latter are increasing systemic inequity is decreasing, and the opportunity to leverage the benefits of VCs exists.
As a result of the stratification in the public school system, affluent districts are better positioned to continue to pool their local resources and give to their highest areas of need. While lower wealth communities are able to secure private contributions from corporations, government grants, and other nonprofits, there are fewer nonprofits in these districts and the external funding sources require that districts apply for the funding. The main findings of this paper support the idea that districts with the capacity in their communities to build more private support should maximize the benefit from those resources for their students with the greatest need. Pooling resources and using private funds to make a positive impact for the educational opportunities of their students is one option for these increasing VCs. On the other hand, another recommendation from this analysis is for the state and federal governments to become more involved in supporting the districts while at the same time respecting local control. The central need is for an adequately funded education system. Government assistance for low-income districts can help by offering grants and incentivizing private corporations to invest in the highest need areas in public education. District-level and state governments should investigate ways to harness the growing popularity and success of ESOs for the benefit of the students. The high demands on the education system are not going away, the fiscal stress is not going away, the need for additional resources for some students is not going away, and perhaps fortunately, voluntary contributions do not seem to be going away.
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