California State University San Marcos
Administrative Services Credential Program
Fall 2004
EDAD 634B: Educational Finance 1 Unit

Mondays 4:30-8:30 PM Four Sessions UH 441

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Office Hours: Wednesday 3-4:30 PM and by appointment

Mission of the College of Education at CSUSM. The mission of the College of Education Community is to collaboratively transform public education by preparing thoughtful educators and advancing professional practices. We are committed to diversity, educational equity, and social justice, exemplified through reflective teaching, life-long learning, innovative research, and on-going service. Our practices demonstrate a commitment to student-centered education, diversity, collaboration, professionalism and shared governance.
(adopted by COE Governance Community, October 1997)

Authorization to Teach English Learners. This credential program has been specifically designed to prepare teachers for the diversity of languages often encountered in California public school classrooms. The authorization to teach English learners is met through the infusion of content and experiences within the credential program, as well as additional coursework. Students successfully completing this program receive a credential with authorization to teach English learners. (approved by CCTC in SB 2042 Program Standards, August 02))

Students with Disabilities Requiring Reasonable Accommodations. Students are approved for services through the Disabled Student Services Office (DSS). This office is located in Craven Hall 5205, and can be contacted by phone at (760) 750-4905, or TTY (760) 750-4909. Students authorized by DSS to receive reasonable accommodations should meet with their instructor during office hours or, in order to ensure confidentiality in a more private setting.

Writing: In keeping with the All-University Writing Requirement, all 3-unit courses must have a writing component of at least 2,500 words (approximately 10 pages) which can be administered in a variety of ways.

Attendance Policy: Due to the dynamic and interactive nature of course in the COE, all students are expected to attend all classes and participate actively. At a minimum, students must attend more than 80% of class time, or s/he may not receive a passing grade for the course at the discretion of the instructor. In addition to the COE policy, students are asked to be respectful of the time and attention of their peers and the professor by arriving on time and remaining in class for the prescribed class time. Individuals with attendance issues should consult with the professor. **Please note: Educational Finance meets 4 times on August 30, September 13, 20 and 27 from 4:30-8:15. To earn a passing grade you cannot miss more than 3 hours of course time during those 4 sessions.**

Grading Policy: Students will be evaluated on class participation and written assignments. The final grade will be based 50% on class participation, 20% on the written assignments and 30% on in-class activities. Written assignment is to be prepared using 1 inch margins, 12 font, New Times Roman.

Texts and Resource Materials

- Websites
  - School Services of California
  - California Department of Education
- From Your District:
  - District and Site Budget
  - Collective Bargaining Agreements
  - (If you work in a non-public school setting, you need to obtain a copy of these documents from a public school.)

Course Description

This course is the second in a two-course sequence articulating the financial and legal aspects of entry-level school administration and leadership. Students concentrate on basic principles and practices of school finance, including budget generation and implementation at site and district levels. Critical financial issues are addressed, as is the financial decision-making process. The relationship between law and finance are discussed as major responsibilities of school administrators and educational leaders.

Goals

This course will assist the candidate to:

1. understand the impact of state and federal governmental decisions on local school districts and school sites.
2. use financial mechanisms as management tools
3. prepare site budgets
4. effectively use financial resources for the benefit of the school community

Objectives

Upon the completion of the course, the candidate will know and understand:

- the roles of federal, state and local agencies in the budget process
- functions of school boards and district administrations in governance and financial policy-making
- financing public schools including historical development, district and site level funding and budgeting and financial implications of personnel contracts and other obligations
- financial implications of federally and state mandated programs and policies
- uses of educational technology in issues of educational finance

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Session 1 **Federal and State Finance Fundamentals for Site Administrators**
August 30

- Philosophical and Legal Aspects of School Finance
- Federal and State Budget Factors
- School Finance Terms

Session 2 **District and Site Budget Fundamentals for Sire Administrators**
September 13

- History of California School Finance
- Technical Aspects of District and Site Budgets or "How Do I Read This Thing?"
- How Collective Bargaining Agreements Shape Budgets
- The Administrator's Role in Shaping Parent and Employee Budget Expectations
- Frequent Administrator Budgeting Errors

Assignment: Read "A History of Revenue Limits - Or Why is Your Base Revenue Limit Bigger Than Mine?" It is attached to this syllabus.

Read January 04 Message from State Superintendent Jack O'Connell at http://www.cde.ca.gov/fg/fr/eb/documents/govbud0405preview.pdf

Bring your district and site budget.
Bring your Classified and Certificated Collective Bargaining Agreements.
Be prepared to identify three elements of each Collective Bargaining Agreement that have budget implications.

Session 3 **Scarce Resources in Times of High Expectations**
September 20

- Dwindling Discretionary Dollars
- Understanding "cost versus value"
- Use and Misuse of Advisory Groups
- The Position and the Person
- Position Control
- Personnel Service Units
- Effective Cost Saving Tips for Districts and Sites

Assignment: Read "Doing More With Less Fiscal Impact Index." It can be accessed at www.sscal.com. Click Education Resources, then click "Doing More With Less Fiscal Impact Index." Peruse the eleven pages of cost saving items. Concentrate on those marked "$$$$" and "$$$." Identify at least five ideas that you would like to have more information on. Bring a copy of pages 1 and 2 to class. (Do not be confused by the number n the left hand column. That is a page number reference to a document in which each item is fully described. This is a level of detail that is not needed for our discussion.)

Session 4 **Budget Building Simulation Using Spread Sheets**
September 27

- Use of spread sheet to illustrate budget impact of staffing allocations
- Good and Bad Budget Times
- Mission Driven Budgets

Assignment: Prepare a three to four page paper in which you discuss the three most significant aspects of school finance that you learned during this course. Describe what you learned and why you believe they are significant in terms of preparing to be a site administrator. End your paper with a paragraph in which you describe two to three budgeting principles that you believe you will use when you are an administrator.

Glossary of Common School Finance Terms

ADA Average daily attendance. There are several kinds of attendance, and these are counted in different ways. For regular attendance, ADA is equal to the average number of pupils actually attending classes who are enrolled for at least the minimum school day. Up through 1997-98, ADA included excused absences but, effective 1998-99, excused absences no longer count towards ADA. In classes for adults and ROC/P, one unit of ADA is credited for each 525 classroom hours. Attendance is counted every day of the school year and is reported to the California Department of Education three times a year.

AB 1200 Reference to AB 1200 (Chapter 1213/1991) that imposed major fiscal accountability controls on school districts and county offices of education, by establishing significant administrative hurdles an obligations for agency budgets and fiscal practices. See especially Education Code Sections 1240 et seq. and 42131 et seq.

Accrual Basis Accounting An accounting system where transactions are recorded when they have been reduced to a legal or contractual right or obligation to receive or pay out cash or other resources.

Ad valorem Taxes Taxes that are based on the value of property, such as the standard property tax. The only new taxes based on the value of property that are allowed today are those imposed with a two-thirds voter approval for capital facilities bonded indebtedness.

Apportionment State aid given to a school district or county office of education. Apportionments are calculated three times for each school year: (1) the First Principal Apportionment (P-1) is calculated in February of the school year corresponding to the P-1 ADA (see Attendance Reports); (2) the Second Principal Apportionment (P-2) is calculated in June corresponding to the P-2 ADA; and, (3) the annual recalculation of the apportionment is made in February following the school year and is based on P-2 ADA (except for programs where the annual count of ADA is used).

Appropriation Bill A bill before the Legislature authorizing the expenditure of public money and stipulating the amount, manner and purpose for the expenditure items.

Appropriation For Contingencies That portion of the current fiscal year's budget that is not appropriated for any specific purpose but is held subject to intrabudget transfer; i.e. transfer to other specific appropriation accounts as needed during the fiscal year.

Assessed Valuation (also, Assessed Value) The total value of property for taxation purposes within a school agency, as determined by state and county assessors. The "AV" of a school district will influence the total property tax income of a school district. The percentage growth in statewide AV from one year to the next is an important ingredient in determining appropriations levels required from the state for fully funding district and county revenue limits, as well as for Proposition 98 calculations. Ever since Proposition 13, the assessed value of properties in California are adjusted to the true market value only at the time of new construction or transfer of ownership. For all other properties, the assessed value grows by a maximum of 2% a year, resulting in the assessed value of many properties being far less than their current market value.

Attendance Reports Each school agency reports its attendance three times during a school year. The First Principal Apportionment ADA, called the P-1 ADA or the P-1 count, is counted from July 1 through the last school month ending on or before December 31 of a school year. The Second Principal Apportionment ADA, called the P-2 ADA, is counted from July 1 through the last school month ending on or before April 15 of a school year. Annual ADA is based on the count from July 1 through June 30. The final recalculation of the apportionment is based on a school agency's P-2 ADA, except for adult education programs, regional occupational centers and programs and nonpublic school funding, all of which use the annual count of ADA. Also, under certain circumstances when a district has a very large influx of migrant students in the Spring, a district may request the use of annual ADA in lieu of P-2 ADA.

Base Revenue Limit See Revenue Limit.

Basic Aid The California Constitution guarantees that each school district will receive a minimum amount of state aid, called "basic aid," equal to $120 per ADA or $2,400 per district, whichever is greater. "Basic aid school districts" are those eligible for the basic aid constitutional guarantee only, since all of the balance of the school districts' revenue limit is funded by local property taxes.

Benefit Assessment Districts See Maintenance Assessment Districts.

Bonded Indebtedness An obligation incurred by the sale of bonds for acquisition of school facilities or other capital expenditures. Since 1986, districts have been able to levy a local property tax to amortize bonded indebtedness, provided the taxes are approved by a two-thirds vote of the electorate.

Categorical Aid Funds from the state or federal government granted to qualifying school agencies for specialized programs regulated and controlled by federal or state law or regulation. Examples include programs for children with special needs, such as special education and Gifted and Talented Education (GATE); special programs, such as the

School Improvement Program (SIP); or, special purposes, such as transportation. Expenditure of most categorical aid is restricted to its particular purpose. The funds are granted to districts in addition to their revenue limits.

CBEDS California Basic Education Data System. The statewide system of collecting enrollment, staffing and salary data from all school districts on an "Information Day" each October.

CBEST The California Basic Education Skills Test. Required of anyone seeking certification as a teacher, the test measures proficiency in reading, writing and mathematics.

Certificated Personnel School employees who hold positions for which a credential is required by the state – teachers, librarians, counselors and most administrators.

Chapter 1 Federal financial assistance to districts to meet the special needs of educationally deprived children, i.e. children whose educational attainment is below the level appropriate for children of their age. Funding is to supplement services in reading, language arts and mathematics to identified students.

Chapter 2 Federal financial assistance for schools under the Education Consolidation and Improvement Act, 20 U.S.C. Sec. 3811 et seq., which consolidated the provisions of Titles II, III, IV, VI, VII and part IX of the Elementary and Secondary Education Act of 1965. The law provides federal grants to develop and implement a comprehensive and coordinated program to improve elementary and secondary instruction in basic skills of reading, math and language arts, as formerly authorized in Title II.

Classified Personnel School employees who hold positions that do not require a credential, like aides, custodians, clerical support, cafeteria workers, bus drivers, etc.

Class Size Penalties The penalties imposed on school districts that have classes in excess of certain maximum sizes. Class size penalties result in a reduction in ADA which, in turn, results in a loss in revenue limit income. (See Education Code Sections 41376 and 41378).

Concurrently Enrolled Pupils who are enrolled both in a regular program for at least the minimum school day and also in a regional occupational center or program (ROC/P) or class for adults. Such a student will generate both regular ADA for the time in the regular program plus concurrently enrolled ADA for the time in ROC/P or adult classes. By qualifying for both regular ADA and concurrently enrolled ADA, such a student can generate more than one unit of ADA.

Consumer Price Index (CPI) A measure of the cost-of-living for consumers compiled by the United States Bureau of Labor Statistics. Separate indices of inflation are calculated regularly for the United States, California, some regions within California and selected cities. The CPI is one of several measures of inflation.

Cost-of-Living Adjustment (COLA) An increase in funding for government programs, including revenue limits or categorical programs. Current law ties the COLA for most education programs to the annual percentage change in the "Implicit Price Deflator" for State and Local Governments – a government price index. (See Education Code Section 42238.1.)

Credentialed Teacher One holding a credential to teach issued by the State Commission on Teacher Credentialing. A credential is issued to those who have successfully completed all college training and courses required by the State, have graduated from an accredited college or university, have met any other state requirements and have passed the California Basic Education Skills Test (CBEST).

Criteria and Standards Local school agency budgets must meet state-adopted provisions of "criteria and standards." These provisions establish minimum fiscal standards, such as a minimum reserve level, that school districts, county offices of education and the State use to monitor fiscal solvency and accountability. See Education Code Sections 33127 et seq.

Declining Enrollment Adjustment A formula that cushions the drop in income in a district with a declining student population. Under current law, districts are funded for the higher of either current year or prior year ADA.

Deficit Factor When an appropriation to the State School Fund for revenue limits – or for any specific categorical program – is insufficient to pay all claims for state aid, a deficit factor is applied to reduce the allocation of state aid to the amount appropriated.

Economic Impact Aid (EIA) State categorical aid for districts with concentrations of children who are bilingual, transient and/or from low income families.

Encroachment The expenditure of school districts' general purpose funds in support of a categorical program, i.e. the categorical expense encroaches into the district's general fund for support. Encroachment occurs in most districts and county offices that provide special education and transportation. Other encroachment is caused by deficit factors or local decisions to allocate general purpose funds to special purpose programs.

Encumbrances Obligations in the form of purchase orders, contracts, salaries, and other commitments chargeable to an appropriation for which a part of the appropriation is reserved.

Equalization Aid The extra state aid provided in some years – such as 1996-97 – to a low revenue district to increase its base revenue limit toward the statewide average.

ERAF Education Revenue Augmentation Fund – the fund used to collect the property taxes that are shifted from cities, the county and special districts within each county, prior to their distribution to K-14 school agencies.

Factfinding The culmination of the Impasse Procedures, Article 9, of the State's collective bargaining law. A tripartite panel, with the chairperson appointed and paid for by PERB, considers several specifically enumerated facts and makes findings of fact and recommendations in terms of settlement to a negotiating agreement. Such recommendations are advisory only and may be adopted or rejected in whole or in part by the parties.

Forest Reserve Funds 25% of funds received by a county from the United States Government from rentals of forest reserve lands are apportioned among the various districts in the county according to school population.

Full-Time Equivalent (FTE) A count of full-time and part-time employees where part-time employees are reported as an appropriate fraction of a full-time position. This fraction is equal to the ratio of time expended in a part-time position to that of a full-time position.

Gann Spending Limit A ceiling, or limit, on each year's appropriations of tax dollars by the state, cities, counties, school districts, and special districts. Proposition 4, an initiative passed in November 1979, added controls on appropriations in Article XIIIB of the California Constitution. Using 1978-79 as a base year, subsequent years' limits have been adjusted for: (1) an inflation increase equal to the change in the Consumer Price Index or per capita personal income, whichever is smaller; and, (2) the change in population, which for school agencies is the change in ADA. Proposition 111, adopted in June 1990, amended the Gann limit inflation factor to be based only on the change in per capita personal income.

General Obligation Bonds Bonds that are a "general obligation" of the government agency issuing them, i.e. their repayment is not tied to a selected revenue stream. Bond elections in a school district must be approved by a two-thirds vote of the electorate, but state bond measures require only a majority vote.

Gifted and Talented Education (GATE) A program for students in grades 1 through 12 who have shown potential abilities of high performance, capability and needing differentiated or accelerated education. "Gifted child educational programs" are those special instructional programs, supportive services, unique educational materials, learning settings, and other services which differentiate, supplement and support the regular educational program in meeting the needs of gifted students.

High Revenue Districts Districts that have a revenue limit per ADA that is greater than the state average for the same type of district (elementary, high school or unified). Many high revenue districts were formerly called "high wealth" because their assessed value per ADA was significantly above the statewide average.

Implicit Price Deflator See Cost-of-Living Adjustment.

Indirect Expense and Overhead Those elements of indirect cost necessary to the operation of the district or in the performance of a service that are of such nature that the amount applicable to each accounting unit cannot be separately identified. Indirect costs are allocated to all programs in a school agency as a percentage of direct and allocated costs for each program.

Individualized Education Program (IEP) A written agreement between a school agency and parents or guardians of a disabled child specifying an educational program tailored to the needs of the child, in accordance with federal PL 94-142 regulations. An IEP team is comprised of a certified district employee who is qualified to supervise special education, the child's teacher, one or both parents, the child, if appropriate, and other individuals at the discretion of the parent or school. The IEP must include a statement of the child's present levels of educational performance, a statement of annual goals and short term instructional objectives, a statement of the specific special education and related services to be provided to the child, the extent to which the child will participate in regular education programs, the projected dates for starting services, appropriate objective criteria, evaluation procedures, and schedules for determining, on at least an annual basis, whether the short term instructional objectives are being achieved.

Least Restrictive Environment Federal and state law requires that disabled students be placed in the least restrictive educational appropriate to their needs so that they can, to the extent appropriate, integrate and be educated with nondisabled students.

Leveling Down Lowering the revenue level of high revenue districts to promote revenue equity among school districts.

Leveling Up Raising the revenue level of low revenue districts to promote revenue equity among school districts.

Mandated Costs School district expenses that occur because of federal or state laws, decisions of state or federal courts, federal or state administrative regulations. Costs that are mandated by state law or regulations must be reimbursed by the state, while costs mandated by federal law, a court or an initiative do not need to be reimbursed by the state. See SB 90, 1977.

Maintenance Assessment Districts A methodology for local agencies, including school agencies, to charge property owners a fee for the benefit derived by the property as a result of local agency service improvements. (See Lighting and Landscape Act of 1972, Section 22500 of the Street and Highways Code). Originally, school agencies were allowed to impose the "fee" by a vote of the local governing board only, by merely showing a benefit to each fee payer. Now, however, a school agency must hold an election before such a fee can be levied.

Maintenance Factor See Proposition 98.

Miscellaneous Funds Local revenues received from mineral royalties, bonuses and other payments in lieu of taxes. Fifty percent of such revenues are used as an offset to state aid in the revenue limit formulas.

Necessary Small School An elementary school with 96 or fewer ADA or high school with 286 or fewer ADA that meets the standards of being "necessary." (See Education Code Sections 42280 et seq.)

Parcel Tax A special tax that is a flat amount per parcel and not ad valorem based (i.e. not according to the value of the property). Parcel taxes must be approved by a two-thirds vote of the electorate. (See Government Code Section 50079, et al.)

PERB Public Employment Relations Board. Five persons appointed by the Governor to regulate collective bargaining between school employers and employee organizations. (See Government Code Sections 3541, et seq.)

Permissive Override Tax Prior to Proposition 13, any of a number of local tax levies that were for specific purposes and that required only the permission of a school board to be levied. School agencies are no longer allowed to levy such taxes.

PERS Public Employees' Retirement System. State law requires that classified employees, their employer, and the state contribute to this retirement fund.

PL81-874 A federal program of "Impact Aid" that provides funds to school agencies that educate children whose families live and/or work on federal property, such as military bases. Also called "PL874."

PL94-142 Federal law that mandates a "free and appropriate" education for all disabled children.

Prior Year's Taxes Tax revenues that had been delinquent in a prior year and that are received in the current fiscal year. These revenues offset state aid in the current year in the revenue limit formula.

Proposition 13 An initiative amendment passed in June 1978 adding Article XIII A to the California Constitution. Under Proposition 13, tax rates on secured property are restricted to no more than 1% of full cash value. Proposition 13 also defined assessed value and required a two-thirds vote to increase existing taxes or levy new taxes.

Proposition 98 An initiative adopted in 1988 and then amended by Proposition 111 in 1990. Proposition 98 contains three major provisions: (1) a minimum level of state funding for K-14 school agencies (unless suspended by the Legislature); (2) a formula for allocating any state tax revenues in excess of the state's Gann Limit; and, (3) the requirement that a School Accountability Report Card be prepared for every school. The minimum funding base is set equal to the greater of the amount of state aid determined by two formulas, commonly called ATest 1@ and ATest 2@ – unless an alternative formula, known as "Test 3," applies.

"Test 1" originally provided that K-14 school agencies shall receive at least 40.319% of state general fund tax revenues in each year, the same percentage as was appropriated for K-14 school agencies in 1986-87. Due to the shift in property taxes from local governments to K-14 agencies, the "Test 1" percentage has been reset at 34.559%.

"Test 2" provides that K-14 school agencies shall receive at least the same amount of combined state aid and local tax dollars as was received in the prior year, adjusted for the statewide growth in K-12 ADA and an inflation factor equal to the annual percentage change in per capita personal income.

"Test 3" only applies in years in which the annual percentage change in per capita state general fund tax revenues plus 1/2% is lower than the "Test 2" inflation factor (i.e. change in per capita personal income), and in this case the "Test 2" inflation factor is reduced to the annual percentage change in per capita state general fund tax revenues plus 1/2%.

One provision of Proposition 98/111 applies whenever the minimum funding level is reduced due either to "Test 3" or the suspension of the minimum funding level by the Legislature and Governor. The "maintenance factor" is initially calculated as the amount of the funding reduction, and this amount grows each year by statewide ADA growth and inflation. In subsequent years when state taxes grow quickly, this "maintenance factor" is restored by increasing the Proposition 98 minimum funding level until the funding base is fully restored.

Purchase Order An encumbrance document that shows the vendor from whom a purchase is being made, what is being purchased by the school agency, the amount of the purchase, the fund from which the purchase is being made (e.g. general, building or bond fund), an accounting code to which the purchase shall be applied, and the signature or initial approval of the designed central office personnel responsible for approving the ordering of goods.

Reduction-in-Force (RIF) The process whereby employment is terminated because of a need to reduce the staff rather than because of any performance inadequacies of the employee.

Reserves Funds set aside in a budget to provide for estimated future expenditures or to offset future losses, for working capital, or for other purposes.

Revenue Limit The amount of revenue that a district can collect annually for general purposes from local property taxes and state aid. The revenue limit is composed of a base revenue limit – a basic education amount per unit of ADA computed by formula each year from the previous year's base revenue limit – and any of the number of revenue limit adjustments that are computed anew each year.

The total revenue limit of a school district is generally determined by multiplying the district's P-2 ADA times the base revenue limit, adding the applicable revenue limit adjustments and applying a deficit factor.

Revolving Cash Funds A stated amount of money used primarily for emergency or small or sundry disbursements and reimbursed periodically through properly documented expenditures, which are summarized and charged to property accounting classifications.

ROC/P Regional Occupational Center or Program – a vocational educational program for high school students and adults. A ROC/P may be operated by a single district, by a consortium of districts under a joint powers agreement (JPA), or by a county office of education for the districts within the county.

SB 90 Reference to Senate Bill 90 (Chapter 1406/1972) that established the revenue limit system for funding school districts. The first revenue limit amount was determined by dividing the district's 1972-73 state and local income by that year's ADA. This per-ADA amount is the historical base for all subsequent revenue limit calculations.

SB 813 Reference to Senate Bill 813 (Chapter 498/1983) that provided a series of education "reforms" in funding calculations. Longer day, longer year, mentor teachers and beginning teacher salary adjustments are a few of the programs implemented by this 1983 legislation.

Scope of Bargaining The range of subjects that are negotiated between school agencies and employee organizations during the collective bargaining process. Scope includes matters relating to wages, hours and working conditions as defined in the Government Code. PERB and the courts are responsible for interpreting disputes about scope.

Secured Roll That portion of the assessed value that is stationary, i.e., land and buildings. See also Unsecured Roll. The secured roll averages about 90% of the taxable property in a district.

Serrano Decision In 1974, the California Superior Court in Los Angeles County ruled in the Serrano v. Priest case that school district revenues in California depended so heavily on local property taxes that students in districts with a low assessed value per pupil were denied an equal educational opportunity in violation of the "Equal Protection" clause of the California Constitution. This ruling established certain standards under which the school finance system would be constitutional and was upheld by the California Supreme Court in 1976. In 1983, the California Superior Court in Los Angeles County ruled that the system of school finance in effect at that time was in compliance with the earlier Court order. The case was subsequently appealed to the Appellate Court which upheld the Superior Court ruling. In March 1989, all of the plaintiffs in the case agreed to dismiss their appeals, thereby settling Serrano as a legal issue.

Slippage Savings in state school fund appropriations that are the result of property tax revenues growing faster than a district's cost-of-living and enrollment growth. When property tax growth is greater than the growth in a district's total revenue limit, state aid to the district declines, creating a "slippage" in state expense.

Squeeze Formula The formula used from 1973-74 through 1981-82 for the calculation of the annual inflation increase in the base revenue limit that provided smaller-than-average increases to high revenue districts. This formula thus "squeezed" the revenues of high revenue districts as a means of promoting revenue equalization. Effective 1983-84, the squeeze formula was eliminated and all districts of the same type now receive the same dollar inflation increase.

State Allocation Board (SAB) The regulatory agency that controls most state-aided capital outlay and deferred maintenance projects and distributes funds for them.

State School Fund Each year the state appropriates money to this fund, which is then used to make state aid payments to school districts. Section A of the State School Fund is for K-12 education and Section B is for community college education.

STRS The State Teachers' Retirement System, which is funded by contributions from both certificated employees and their employing school agencies, as well as by direct payments by the state.

Subventions The term used to describe assistance or financial support, usually from higher governmental units to local governments or school agencies. State aid to school agencies is a state subvention.

Sunset The termination of a categorical program. A schedule is in current law for the Legislature to consider the "sunset" of most state categorical programs. If a program sunsets under this schedule, the funding for the program shall continue but the specific laws and regulations shall no longer apply.

Supplemental Roll An additional property tax assessment for properties that are sold or newly constructed that reflect a higher market value than on their prior lien date. By taxing this increase in assessed value immediately – rather than waiting until the next lien date – additional property taxes are generated.

Test 1/Test 2/Test 3 See Proposition 98.

Unduplicated Count The number of pupils receiving special education or special services under the Master Plan for Special Education on the census dates of December 1 and April 1. Even though a pupil may receive multiple services, each pupil is counted only once in the unduplicated count.

Unencumbered Balance That portion of an appropriation or allotment not yet expended or obligated.

Unsecured Roll That portion of assessed property that is movable, such as boats, planes, etc.

Waivers Permission from the State Board of Education – or, in some cases, from the Superintendent of Public Instruction – to set aside the requirements of an Education Code provision upon the request of a school agency. Certain Education Code sections cannot be waived. (See Education Code Section 33050.)

The FISCAL REPORT *an informational update*

Volume 19 December 3, 1999 No. 25

A History of Revenue Limits— Or, Why is Your Base Revenue Limit Bigger than Mine?

By Paul M. Goldfinger
Vice President, School Services of California, Inc.

Introduction

Revenue limits have been the integral feature of school finance in California since the early 1970s. Most practitioners and policy analysts are well aware of how revenue limits are calculated each year by bringing forward the base revenue limit of the prior year and adding an inflation increase.

Frequently, we get questions about why there are variances in revenue limits. Common questions include, "Why is my district's revenue limit below the statewide average?" or, "Why is this other district's revenue limit so much higher than mine?"

The following history of revenue limits was written in response to these questions, and this history focuses on how revenue limits have been used to equalize school funding. This history starts with the 1972-73 revenues that formed the basis for the initial revenue limit calculation, and explains how a differential inflation increase (also known as the "squeeze factor") and massive amounts of equalization aid have resulted in substantial equalization over time. Also, this material highlights the major transition points when the calculation of revenue limits involved factors other than just the annual cost-of-living adjustment (COLA) – that is, times when the base revenue limits for some districts grew much faster than others, resulting in the revenue limits for some districts leapfrogging over others.

SB 90 – The Beginning of Revenue Limits

Revenue limits were established by SB 90 (Chapter 1406/1972), largely in response to the initial 1971 State Supreme Court ruling in the *Serrano vs. Priest* equalization lawsuit.

Since their inception in 1973-74, revenue limits have had two components:

1. The major component is the base revenue limit – a basic education amount per unit of average daily attendance (ADA); and

2. The other component consists of a number of revenue limit adjustments that recognize specific needs, such as adjustments for unemployment insurance, necessary small schools, and summer school funding.

The original 1973-74 base revenue limit was set equal to: (1) a district's total 1972-73 general purpose revenues – that is, unrestricted state aid and local property taxes – divided by the district's 1972-73 ADA, plus (2) an adjustment for inflation. Because of huge differences in the assessed value behind each pupil, as well as differences in property tax rates, initial base revenue limits per ADA varied enormously. In fact, the highest funded districts generated three or four times as much per pupil as the lowest funded districts.

SB 90 sought to equalize these differences over time, primarily through a differential inflation increase that provided a larger dollar increase for low-revenue districts than for high-revenue districts. Additionally, in the early years of the SB 90 formulas, the lowest revenue districts were allowed increases of up to 15% per year. Through these formulas, low-revenue districts had their base revenue limits "leveled up" toward the statewide average and high-revenue districts were "leveled down" since they received a COLA significantly less than the real inflation increase. The "leveling down" of high-revenue districts toward the statewide average became known as the "squeeze formula" since it restricted (squeezed) the growth rate of high-revenue districts.

However, in the early years of revenue limits, there was also a statutory provision that allowed districts to increase their revenue limit income through a voted override. A number of school districts – primarily those adversely affected by the squeeze formula – were able to get these voted revenue limit increases approved, a process that required only a majority vote of the electorate in the years before Proposition 13.

The 1974 *Serrano* Decision

The *Serrano* case was heard at the Superior Court level in a trial that began in December 1972 – just weeks after SB 90 was enacted. In his 1974 decision, Judge Jefferson ruled that, while SB 90 was a step in the right direction, it did not equalize education funding either sufficiently or fast enough. As part of his decision, Judge Jefferson established the guideline that the state's school finance system should reduce "wealth-related disparities" [that is, differences in funding due to differences in taxable wealth] to "amounts considerably less than $100 per pupil."

Proposition 13

After the State Supreme Court upheld in 1976 the lower-court decision in *Serrano*, the state enacted a very comprehensive package of equalization formulas in 1977. But literally weeks before these new formulas were to take effect for the 1978-79 school year, Proposition 13 was enacted in June 1978.

In recognition of the huge cut in statewide property taxes required by Proposition 13, the state imposed funding cuts on all local governments, including school agencies. In 1978-79, the initial year after the passage of Proposition 13, school funding was cut by amounts ranging from 9% for low-funded agencies to 15% for the highest funded agencies. However, the state cushioned these cuts by allowing school agencies to continue to get credit for two prior funding sources that were discontinued.

Prior to Proposition 13, school districts were allowed to levy what were known as permissive override taxes – additional property tax levies for a select number of purposes authorized by state law that required only governing board permission to implement. Under the post-Proposition 13 formulas, districts that had levied permissive overrides in 1977-78, such as for child development, community services, or for certain state school loan repayments, were allowed to permanently fold the dollar amount from the permissive tax collections into their base revenue limit as an amount per ADA.

Additionally, in the wake of Proposition 13, the state discontinued most summer school programs and dramatically curtailed adult education programs. But school districts were allowed to calculate the revenue loss from these discontinued programs and add that as well, as an amount per ADA, to their base revenue limit. Since this additional funding was for ADA that was no longer served, it became known as funding for "phantom ADA."

As a result of the 9-15% cut, along with the add-ons for permissive override taxes and phantom ADA, base revenue limits were radically changed in the wake of Proposition 13. Two districts that previously had identical revenue limits per ADA in 1977-78 could have wound up with very different base revenue limits starting in 1978-79. Proposition 13 thus precipitated the first "discontinuity" in the history of revenue limits.

As noted above, the *Serrano* court not only found differences in K-12 funding to be objectionable, but also differences in property tax rates. Clearly, Proposition 13 instantly equalized total property tax rates statewide.

Squeeze Formula Continued through 1981-82

From 1979-80 through 1981-82, the state continued to equalize the post-Proposition 13 revenue limits through the squeeze formula. In fact, the squeeze formula was modified in these years to provide even more rapid revenue limit equalization.

There was no revenue limit squeeze factor operative in 1982-83, since there was no inflation increase in that recession year. In lieu of a COLA, the 1982-83 State Budget provided school districts with a flat inflation adjustment of $11.90 per ADA (an inflation increase of less than 7/10 of 1%). But as an added protection, school districts also received a "100% guarantee" in that year.

Under this 100% guarantee, school districts with declining enrollment in 1982-83 continued to receive the same total revenue limit dollars as they had in the prior year.

This type of a minimum guarantee was not unique to 1982-83. The state provided a 102% guarantee – that is a guarantee of at least a 2% increase in total revenue limit – in each year from 1979-80 through 1981-82. Clearly, this was of tremendous benefit to the many districts with declining enrollment at that time.

1983 – Two Major Events

Two events of significance happened in 1983. First, the *Serrano* case was back in court, but this time the court ruled that the state was in compliance with the *Serrano* standard. Key to this 1983 decision was Superior Court Judge Lester Olsen's ruling that the previously established *Serrano* compliance standard of a $100 range must be adjusted for inflation. As a result of this decision, 93.2% of the statewide total ADA were in school districts that had revenue limits within the allowable range in 1982-83. Judge Olsen then concluded that having only 6.8% of pupils outside this range was not a significant disparity.

The second major event in 1983 was the enactment of SB 813 (Chapter 498/1983), the landmark school finance and school reform bill. The following features of SB 813 are relevant to the history of revenue limits:

- SB 813 folded the benefit that a district received from the 100% minimum revenue guarantee in 1982-83 into its base revenue limit in 1983-84. As noted above, the 100% minimum revenue guarantee in 1982-83, along with the 102% guarantee in prior years, protected the total revenue limit for declining enrollment districts. As a result of this provision of SB 813, districts that had been declining in 1982-83 – or, for that matter, had been declining consistently from 1979-80 through 1982-83 – received additional funds that were folded into the revenue limit as an amount per ADA, while growing districts received no comparable adjustment. The folding in of the extra revenues from the minimum guarantee resulted in the second major discontinuity in revenue limits.

- In the wake of Judge Olsen's decision in the *Serrano* case, which ruled that the state was in compliance with the *Serrano* mandate, SB 813 ended the revenue-limit squeeze factor. Beginning in 1983-84, all districts of the same type – elementary, high school, or unified – received the same dollar inflation increase.

  High-revenue districts still feel some squeeze, however, since the dollar amount of the annual inflation increase is equal to the annual COLA percentage times the prior year statewide average base revenue limit for each type of district. And, for a high-revenue district, this dollar amount is a smaller percentage increase than for a district at the average. Another way of looking at this is that a high-revenue-limit district will receive the same inflation increase as a district at the average, and so will maintain its dollar differential above the average. But the purchasing power of that differential will diminish over time due to the impact of inflation.

- SB 813 also implemented the longer day, longer year, and minimum teacher salary reform programs. All three of these programs were operated on an incentive basis. Participating districts received funding as a total dollar amount in one year, and then that amount was folded into the district's base revenue limit per ADA in the subsequent years to provide an ongoing revenue stream. Virtually all districts fully participated in the longer day and longer year programs, and so received comparable base revenue limit add-ons per ADA for these two programs. But the minimum teacher salary program was quite different, with some districts receiving very high add-ons per ADA, and other districts choosing not to participate in the program. This is another reason why the base revenue limit for some districts is higher than others.

- Finally, SB 813 implemented for the first time full revenue limit equalization, where districts with below-average base revenue limits in 1983-84 had their revenue limits raised to the statewide average in 1984-85.

Equalization Efforts Continued

Although the state was found to be in compliance with *Serrano* in 1983, the state continued to recognize the importance of equalization by providing partial equalization aid in 1985-86 and 1986-87 and again in 1989-90. In each of these three years, the state appropriated a specific dollar amount for equalization that was less than the cost of raising all low-funded districts to the average. In these years, equalization aid was prorated, and all below-average districts received the same proportion of the distance to the average. In 1985-86, for example, a district that was $50 per ADA below the average would have received only about 20% of that amount, or about $10. Similarly, about 20% of equalization aid entitlements were funded in 1986-87 and about 54% of equalization aid entitlements were funded in 1989-90.

A more recent series of equalization efforts began in 1995-96. In that year, the state again provided equalization aid to bring all below-average districts to the statewide average. And, in 1996-97, the state funded three "rounds" of equalization aid for low-revenue limit districts. Under this process that was unique to 1996-97, the state brought all low-revenue limit districts up to the statewide average in the first round of equalization aid, recomputed the statewide average, provided a second round of equalization aid using this recomputed average, and repeated this process yet a third time.

By the time the three rounds of equalization aid were completed, 97.9% of the pupils in the state were within the allowable *Serrano* range – the original $100 standard, adjusted for inflation, or $324 in 1997-98. Furthermore, over 90% of the pupils in the state were in school districts that were only minimally below the statewide average. The lowest funded elementary districts were only about $40 per ADA below the average, and the lowest funded high school and unified districts were no more than $20 per ADA below the average. While fewer than 10% of the ADA were in above-average districts, these districts ranged from just $1 above the average to as much as several hundred dollars (or more) above the average.

Equalization Aid Will Never Fully Equalize Districts

A funny thing happens when the state provides equalization aid to raise all low-revenue districts up to the statewide average. Those low-revenue districts wind up below the statewide average the very next year!

This seeming contradiction can be explained by the following example. For simplicity, consider that the universe of school districts in California consisted of only three school districts of the same size, one with a base revenue limit of $1,700 per ADA, one at $2,000 per ADA, and one at $2,300 per ADA. In this case, the statewide average would be $2,000 per ADA. By providing equalization aid – that is by allocating an additional $300 per ADA to the low-revenue district to bring it up to the statewide average, two districts are now at $2,000 – the former statewide average. Clearly, the statewide average can no longer be $2,000 – it must be higher than that.

In fact, the statewide average has grown by the average amount of equalization aid – $100 per ADA in this example, and so the new statewide average is $2,100 per ADA. As indicated, since the average increased, the district that was brought up to the average before is now again below the average, and so is the district that was previously at the average.

Because of the way equalization aid has been calculated that is, based upon the recomputed average each year, allocating equalization aid has been likened to a dog chasing its tail. The state will never fully equalize revenue limits until all low-revenue districts have been leveled up to that of the very highest revenue limit district in the state – a process that will take an infinite time.

Another point to be made about equalization concerns the SB 813 reform add-ons to the revenue limit for the longer day, longer year, and minimum teacher salary programs. Since not all districts participated in the longer day and longer year program, and many districts did not participate in the minimum teacher salary program, the state felt it was inappropriate to level low-revenue districts up to the statewide average base revenue limit including those add-ons. After all, if a low-revenue district did not participate in these programs, but received equalization aid up to the statewide average – which would include the average funding for these reform programs – it would receive a windfall through equalization aid it did not deserve.

For this reason, whenever the state has calculated equalization aid since SB 813, it compares a district's base revenue limit after subtracting these reform add-ons to the comparable statewide average. But while this process has eliminated the possibility for a district getting a windfall for these reform programs, it also means that equalization does not result in equal revenue limits. Two districts of the same size and type, but which have historically different add-ons per ADA for the longer day, longer year, and minimum teacher salary programs, would have been leveled up to the same statewide average through the equalization process. But when the reform add-ons are added back on top of this average, the districts will still have different revenue limits.

One final point to make about equalization is that the state has recognized not only separate statewide averages for the three types of districts – elementary, high school, and unified – but has also recognized different averages for large and small districts. The dividing line between large and small districts is 100 ADA for elementary districts, 300 ADA for high school districts, and 1,500 ADA for unified districts.

SB 727 – Rebenching to Offset Loss of Excused Absences

Effective 1998-99, average daily attendance counts no longer include excused absences. In recognition of this change, SB 727 (Chapter 855/1997) increased base revenue limits to offset the exclusion of excused absences. In simplest terms, each school district's base revenue limit was increased by the ratio of its 1996-97 ADA *including* excused absences to 1996-97 ADA *excluding* excused absences. For example, consider a district that had 1,000 ADA in 1996-97 and which had an excused absence rate of 5%, so that 50 ADA were from excused absences. This district's ratio would be 1,000/950 – making the change revenue neutral – since the new base revenue limit times 950 ADA yields the same amount as the former rate times 1,000 ADA.

In future years, a district would not lose any money if it maintained the same excused absence rate as it had in 1996-97. And, most importantly, if a school district were able to reduce its excused absence rate by increasing actual attendance, it would generate more funding.

Clearly, the SB 727 adjustments to base revenue limits represent another discontinuity. Two districts that had the same base revenue limit before this adjustment, but very different excused absence rates in 1996-97, wound up with very different base revenue limits. And as a result, the tight grouping of base revenue limits that was achieved in the mid-90s through successive rounds of equalization was blown up by the application of adjustment factors ranging from below 3% to more than 7%.

Additionally, the SB 727 adjustments had a dramatic change in which districts were above or below the statewide average. Many districts that were previously slightly below the statewide average base revenue limit, but which had high excused absence rates, now have above-average base revenue limits, and vice versa.

Thus, solely because of its 1996-97 excused absence rate, many districts that previously were deemed to have low funding – and which received equalization aid time after time in the past – are now shown as having above-average funding. Conversely, a district that had a base revenue limit slightly above the average in the past, but which had a low excused absence rate in 1996-97, will now find itself below the statewide average. In fact, the percentage of ADA in the state in school districts with below-average base revenue limits dropped from 90% in 1997-98 to only about 66% in 1998-99.

The following table shows how six unified districts that had essentially equal base revenue limits before SB 727 now have widely varying base revenue limits.

			Difference Due to Rebenching	
District	**Pre-727 Rebenching**	**Post-727 Rebenching**	**$**	**%**
A	$3800.32	$3,931.63	$131.31	3.46%
B	$3,800.36	$3,991.69	$191.33	5.03%
C	$3,800.58	$4,087.62	$287.04	7.55%
D	$3,800.66	$3,942.87	$142.21	3.74%
E	$3,800.99	$4,030.94	$229.95	6.05%
Difference Between Lowest and Highest Revenue Limit:				
	$0.67	$155.99		

In the wake of SB 727, if equalization aid is allocated in the future to districts with below-average revenue limits, it will benefit a whole new set of school districts – generally those that had a low percentage of excused absences in 1996-97. On the other hand, as noted above, many school districts that were historically below average and received equalization aid in the past would not benefit from future equalization aid.

School District Reorganization

Another reason why a school district's revenue limit may be above average is school district reorganization. Under current law, when school districts merge, the base revenue limit of the newly reorganized district is equal to the sum of: (1) the weighted average of the base revenue limits of the component districts; and, (2) an add-on based upon the differential in average costs for salaries and benefits of the component districts. The weighted average calculation is revenue neutral and does not yield any new money. But the add-ons for salary and benefit differentials do represent new money and could result in the base revenue limit of a newly reorganized district exceeding the statewide average – even if all of the component districts had base revenue limits below the average. Note that this add-on for salary and benefit differentials cannot exceed 10% of the weighted average base revenue limit.

In the late 1980s, a number of districts took advantage of what was a loophole in state law to wind up with extremely high base revenue limits as a result of reorganization. At that time, a very small district with an extremely high base revenue limit was allowed to "annex" a much larger neighboring district, with the revenue limit of the combined district raised to the high level of the tiny district. As a result of this process, a handful of sizable districts now have extremely high base revenue limits. This process was discontinued after 1989, as a result of a change in law.

Basic Aid Districts

No discussion of school district equalization would be complete without an explanation of basic aid. Under the state constitution, each school district must receive minimum state funding of $120 per ADA or $2,400 per school district, whichever is greater. This constitutionally guaranteed minimum amount of state aid is called "basic aid." Some school districts receive sufficient property tax revenue that, when combined with basic aid, actually exceeds their computed revenue limit, and these districts are called "basic aid districts."

The following points should be made about basic aid districts:

- While there were 53 basic aid districts in 1998-99, together they comprised less than 2% of the statewide ADA – a smaller percentage than the *Serrano* court deemed to be not significant. Most of these are very small districts.

- Basic aid districts receive only property taxes from the secured roll and unsecured roll. They do not receive any property taxes from the supplemental secured roll, nor do they receive any of the property taxes shifted from local governments (known as Education Revenue Augmentation Fund, or ERAF revenues).

- While the perception is that basic aid districts all have very high funding levels, this is not the case. One district received less than $8 per ADA extra from being basic aid in 1998-99, while a number of others received only about 1% extra. Some districts with below-average funding are basic aid, with their low revenue limits fully paid for by property taxes.
- The extra property taxes retained by basic aid districts – that is, the amount in excess of their computed revenue limit--does not count towards the Proposition 98 funding. If these property taxes were redistributed to other districts, two things would happen. First, the educational programs in the affected districts would suffer significant cuts. Second, under current law, these property taxes would merely offset state aid under the Proposition 98 formulas, resulting in no additional funding for other districts.

Conclusion

Clearly, some of the changes to revenue limits were dis-equalizing. This paper discussed the changes made in 1978-79 in the wake of Proposition 13, the fold-in of the minimum guarantee in 1983-84, the differences in longer day/year and minimum teachers' salary add-ons in the mid-1980s, and the adjustment to offset the loss of excused absences, which became effective in 1998-99. But there were several other adjustments that also had a differential impact: (1) the ability to fund transportation encroachment by pulling dollars out of a district's base revenue limit (1981-82); (2) the fold-in of funding for the small district transportation allowance (1988-99) and for Urban Aid and Meade Aid (1989-90); and (3) the ability to fold some or all of a district's Supplemental Grant into the base revenue limit (1995-96).

Overall, however, the state has certainly come a long way in terms of equalizing revenue limit from the early 1970s. Whereas some school districts had three times the funding per ADA of others before revenue limits, the "squeeze formula" and more recent equalization efforts have resulted in the vast majority of school districts being within 3% of each other today.

Of course, some districts still receive more than others do. And it is true that a handful of districts receive $500 or more per ADA in revenue limit funding in excess of their peers. But the percentage of statewide ADA in districts that have such a large financial advantage is miniscule – only about 1% of statewide ADA.

Perhaps even more important than further efforts to equalize funding is to increase the adequacy of funding for all districts. In that way, instead of envying the handful of California districts with the highest funding levels, we will be ranked with the many states in the country where typical funding levels are even higher.