

Technical Appendix

Pathways for School Finance in California

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Contents

Base Year Funding Details

- District Organization and Average Daily Attendance
- Base Year Revenues

References

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Base Year Funding Details

The accompanying report simulates alternatives to California’s current school finance system. This appendix provides more information about the revenues used in those simulations. The first section describes the districts and pupil counts used in the simulations. The second section describes the revenues used in the simulations. Data used in the accompanying report and described in this appendix are available online <http://www.ppic.org/main/dataSet.asp?i=1074>.

District Organization and Average Daily Attendance

California students attend schools in three types of school districts: elementary districts that typically serve students in grades K–8, high school districts that typically serve students in grades 9–12, and unified districts that serve students in all grades.¹ The number of districts varies annually according to district reorganizations and consolidations.

The majority of K–12 funding is allocated based on a district’s average daily attendance (ADA), a measure of its student population. There are multiple measures of ADA used in different program funding formulas. Each measure may include or exclude certain types of students. For the purposes of this report’s simulations, the ADA measure includes only pupils attending regular district schools and district-operated community day schools.

This measure excludes several types of students. The first are students who attend small rural schools known as “necessary small schools” (NSS). In contrast to regular district schools that receive base funding for each unit of ADA, NSS is funded through a separate formula based primarily on staffing needs. Our ADA measure also excludes students in special county schools and classes, students in nonpublic school placements, and the declining enrollment adjustment. Finally, we excluded charter school students except those in six all-charter districts that choose revenue limits over the charter school general purpose block grant per *Education Code* 42238. Although all of the aforementioned excluded students may be counted in some of the funding formulas, they do not attend regular district schools and are therefore excluded in our analysis.

Just as some students are excluded, some districts are excluded from the simulations. The exclusions stem from two reasons. The first are districts without any students in regular or community day schools. In 2009–10, seventy-three districts contained only NSS and two districts had only charter schools but did not receive revenue limit funding. Additionally, we exclude from our simulations nine districts in which over 75 percent of all ADA were in NSS. The majority of these districts also had fewer than ten regular ADA.

The simulations in the accompanying report include 884 school districts serving approximately 5.5 million students (Table A1). This represents approximately 91 percent of districts and 95 percent of students in California public schools. As expected, small districts in each type were the most likely to be excluded; 100 percent of all medium and large districts are included in the simulations, while just 78 percent of small elementary districts are included. A similar pattern exists in the percent of total ADA counted in this paper

¹ Exact grade level service varies by district; , for example, some high school districts may serve only grades 9–12.

by district type and size. The majority of NSS-only districts are small elementary districts, which explains why only 45 percent of all small elementary ADA is included in this paper. In medium and large unified and high school districts, over 95 percent of ADA is counted. The excluded 5 percent is largely explained by excluded charter school and declining enrollment ADA.

Table A1.
District ADA included in the simulations by district type and size, 2009–2010

District type and size		Number of districts	Percent of all districts	ADA	Percent of ADA
Elementary	Small (0–250)	132	66.0	17,474	45.5
	Medium (251–1,500)	171	100.0	110,693	82.8
	Large (1,501+)	175	100.0	969,368	97.2
High school	Small (0–1,500)	23	88.5	19,607	92.1
	Medium (1,501–6,000)	26	100.0	82,848	95.1
	Large (6,001+)	31	100.0	444,893	95.4
Unified	Small (0–3,000)	120	93.8	151,138	88.7
	Medium (3,001–10,000)	96	100.0	556,209	94.1
	Large (10,001+)	110	100.0	3,181,060	94.7
All districts		884	91.2	5,543,291	94.5

Base Year Revenues

The following sections describe each of the four programs—revenue limits, the flex item, special education, and Economic Impact Aid—in more detail. The purpose and history of each revenue source is first described followed by a description of past equalization policies. A final section lists revenues excluded from the simulations.

Revenue Limits

The majority of funds at a district’s disposal are revenue limit funds. Revenue limits can be used by school districts for any general purpose. The revenue limit funding formula is complex.² Generally, each district is entitled to a unique funding rate per pupil. That rate is multiplied by the number of students and subsequently adjusted for historic or accounting purposes. The end result is a district’s revenue limit entitlement, which is financed by local property taxes and state aid. A percentage of the property tax revenue generated by real property located within a district is assigned to the district; state aid makes up the difference between a district’s entitlement and its property tax revenue.

Base rates, the unique per-pupil funding rate for each district, represent approximately 97 percent of the 2009–10 statewide average revenue limit entitlement per ADA. Generally, the base revenue limit is the prior year’s rate plus an inflation increase. A district’s inflation increase is the cost of living adjustment (COLA) percentage³ multiplied by the mean revenue limit funding for all districts of the same type. In 2009–10, the inflation increase was \$250 for elementary districts, \$300 for high school districts, and \$262 for unified

² See Weston 2010 for more detailed information about the history, components, and distribution of revenue limit funds.

³ Determined by the implicit price deflator for state and local government purchases of goods and services for the United States, a federally published index measuring the annual change in the prices of goods and services bought by state and local governments. See *Education Code* 42238.1(b).

districts. The COLA rate varies considerably year to year; in 2009–10, it was 4.25 percent. The Governor’s 2010–11 budget proposal projects a COLA of -0.38 percent.⁴

Revenue limit funds are unique in that they are “continuously appropriated,” or annually calculated and apportioned by statutory formula and do not require a budget act in order to be allocated to schools. Each district’s apportionment is largely out of the control of the governor and legislature. However, when state funds are insufficient to meet statutory funding obligations, a deficit factor is applied to a district’s revenue limit entitlement. The deficit factor reduces every district’s revenue limit entitlement by an equal percentage for the fiscal year; it does not permanently reduce revenue limit funding. The deficit factor for 2009–10 is 18.355 percent. The simulations presented in this report reflect this deficit factor; the baseline revenue limit funding is 18.355 percent lower than statutory levels.

The Flex Item

The 2009 Budget Act⁵ granted expenditure flexibility over 40 previously restricted “categorical” programs.⁶ Although the programs were not technically consolidated into a single revenue stream, the flexible categorical funding is commonly called the “flex item.”

A district’s funding for each flexible categorical is determined by its relative statewide proportion of funds in the base year.⁷ If a district received 2 percent of the total funding for a program in the base year, it will continue to receive 2 percent of the funding appropriated in each year through 2012–13. Districts without funding in the base year are ineligible for funding.⁸

The flexibility arose as a response to the large cuts in K–12 funding as a result of the deteriorating California economy in 2008–09 and 2009–10. All categorical programs in the flex item were cut by 15 percent, or \$944 million, in 2008–09.⁹ Funding was reduced by another 4.9 percent, or \$267 million, in 2009–10.

Of the 40 flexible categorical programs, several are excluded from our analysis for two reasons. First, we exclude programs that did not allocate any revenue to school districts. For example, funding for civic education does not go to districts. Rather, a nonprofit, the Center for Civic Education, annually receives funding and provides civics materials statewide. Similarly, the charter school categorical block grant goes to charter schools. Since our simulation excludes charter schools, that funding is excluded from the district flex item.

The second reason for exclusion is a lack of data. In particular, funds for alternative certification programs are allocated to the California Commission on Teacher Credentialing (CCTC). Apportionment data to districts or other local education agencies is not publicly available. Similarly, the teacher dismissal apportionments are made by the Controller’s Office. The program’s apportionment data is not available from the California Department of Education or the Controller’s Office website. In total, nine of the 45 programs, about 3 percent of flex item revenue, are excluded from this report’s flex item. Table A2 reports all

⁴ California Department of Finance 2010.

⁵ SBX3 4 (Chapter 12, Statutes of 2009). See www.cde.ca.gov/fg/fr/eb/yr09budgetacts.asp or *Education Code* 42605 for more information.

⁶ The exact number of programs is subject to some debate. Expenditure flexibility was granted to 38 items in the 2009 Budget Act. Many items have several schedules, each of which is sometimes considered a separate program. See Appendix Table A2.

⁷ For most programs, the base year is 2008–2009. For programs where funding is determined by ADA, such as adult education, the base year is 2007–2008.

⁸ Some funding is set aside for new schools that are ineligible for the flex item because they were not in existence in the base year. See *Education Code* 42606 and www.cde.ca.gov/fg/aa/ca/nscategfund.asp.

⁹ O’Connell 2009.

flexible programs, the year and source of data, and whether that program is excluded in the flex item in the accompanying report.

Table A2.
Flex item programs

Program	Budget item ¹⁰	Year	Source ¹¹	Reason for exclusion
Administrator Training	144	2008–09	CDE	
Adult Education	156	2009–10	PAS	
Advanced Placement Test Fee Waiver	240	2009–10	CDE	
Alternative Certification	6360-101			Data unavailable
American Indian Early Childhood Education	150	2009–10	CDE	
Arts and Music Block Grant	265	2009–10	CDE	
Bilingual Teacher Training	193			No district funding
CAHSEE Intensive Instruction and Services	204	2009–10	CDE	
California Association of Student Councils	242			No district funding
CalSAFE	198	2009–10	CDE	
Center for Civic Education	208			No district funding
Certificated Staff Mentoring	267	2009–10	CDE	
Charter School Categorical Block Grant	211			No district funding
Class Size Reduction—Grade 9	232	2009–10	CDE	
Class Size Reduction—Grades K–3 ¹²	234	2008–09	CDE	
County Office of Education <i>Williams</i> Monitoring	266			No district funding
Community Day School Additional Funding	190	2009–10	PAS	
Community-Based English Tutoring (CBET)	227	2009–10	CDE	
Deferred Maintenance	188	2009–10	OPSC	
Education Technology	181			No district funding
Gifted and Talented Education (GATE)	124	2009–10	PAS	
High Priority Schools Grant Program				Program not funded
Indian Education Centers	151			No district funding
Instructional Materials Block Grant	189	2009–10	CDE	
International Baccalaureate	240	2009–10	CDE	
Math and Reading Professional Development	137	2009–10	CDE	
Middle and High School Counseling	108	2009–10	CDE	
National Board Certification Incentive	195	2009–10	CDE	
Oral Health Assessments	268	2009–10	CDE	
Peer Assistance and Review	193	2009–10	CDE	
Physical Education Teacher Incentives	260	2009–10	CDE	
Professional Development Block Grant	245	2009–10	CDE	
Pupil Retention Block Grant	243	2009–10	CDE	
Reader Services for Legally Blind Teachers	193	2009–10	CDE	
Regional Occupation Centers and Programs (ROCP)	105	2009–10	PAS	
School and Library Improvement Block Grant	247	2009–10	CDE	
School Safety Block Grant	228	2009–10	CDE	
School Safety Competitive Grant	248	2009–10	CDE	
Specialized Secondary Programs	122	2009–10	CDE	
Supplemental Instruction (hourly programs)	104	2009–10	PAS	
Targeted Instructional Improvement Block Grant (TIIBG)	246	2009–10	CDE	
Teacher Credentialing Block Grant	244	2009–10	CDE	
Teacher Dismissal Apportionments	209			Data unavailable

¹⁰ All 6110—unless specified.

¹¹ PAS is P-2 Principal Apportionment Summary; CDE is funding result spreadsheets downloaded from CDE website, OPSC is a funding report downloaded from the Office of Public School Construction website.

¹² Not granted flexibility in SBX3 4 (Chapter 12, Statutes of 2009), but included in the flex item for this report.

The majority of the flex item programs fund individual school districts. However, the flex item also included regional occupation programs and centers (ROCPs) and the teacher credentialing block grant, which support regional activities with funding apportioned to regional administrative units.¹³ Because it is unclear to us what is now required of these units, we do not allocate regional flexible funds to member districts. Rather each entity that receives funding in the apportionment file retains that funding. In the case of ROCPs, only districts that are part of a joint-powers agreement receive ROCP funding in the flex item variable used in the accompanying report. Districts that are part of a county-operated ROCP receive no funding. Although many districts operate teacher induction or beginning teacher support and assessment (BTSA) programs, only 156 local education agencies, including 4 charter schools and 28 COEs, received funding in 2009–10 for those programs. Only district funding from the CDE apportionment files is included in the flex item.

Although Grades K–3 Class Size Reduction (K–3 CSR) was not part of the flex item, we include it as part because the 2009 Budget Act allowed districts to exceed class sizes of 25 and retain 70 percent of K–3 CSR funds. In previous years, if a district exceeded the 20.44 class size maximum, it generally lost all K–3 CSR funds for every class larger than the maximum. Because a district can retain a majority of the funds without implementing the program, we include 70 percent of a district’s 2008–09 provisional entitlement in the flex item.

Special Education

The majority of California’s special education funding is allocated through the AB 602 (Chapter 854, Statutes of 1997) entitlement formula. The formula contains 10 components. Funding is allocated to 124 special education local plan areas (SELPA). SELPAs are groups of school districts, county offices of education (COEs), and charter schools that agree to share special education funding and services to achieve economies of scale. The administrative unit, typically a COE or large school district, receives all funding and allocates it to its member LEAs according to its plan.

Approximately 91 percent of all AB 602 funding is apportioned through the base funding. In 1998–99, the state determined a SELPA’s base rate by dividing the total funding received in by all districts within the SELPA in 1997–98 by the SELPA’s total 1997–98 ADA. Generally, the base funding is annually calculated by multiplying a SELPA’s base rate by its ADA. Like revenue limits, several sources of revenue finance AB 602 base funding: any local special education property taxes, applicable excess Education Revenue Augmentation Fund (ERAF) property taxes, federal local assistance special education funding, and state aid. State aid makes up the difference between a SELPA’s base funding entitlement and the other three sources of revenue. As with base revenue limits, we include all the revenue in the AB 602 base funding regardless of its source.

The remaining components of the AB 602 entitlement fall into two broad categories. The first are adjustments for inflation and changes in ADA. This category includes the supplement to the base, COLA, and declining enrollment funding for necessary small SELPAs. The second category includes supplemental funds for SELPAs with special costs. By excluding these additional funds from our analyses, we assume that these funds continue to operate.

AB 602 equalized base rates in two phases. In 1997, prior to AB 602’s implementation, districts received \$76.7 million in one-time equalization aid to equalize districts’ funding rates under the old funding model.¹⁴ The second phase of equalization focused on equalizing base rates across SELPAs. The state set a target base rate

¹³ See Weston, Sonstelie, and Rose 2009 or CDE’s website for more information about ROCPs and the teacher credentialing block grant.

¹⁴ Legislative Analyst’s Office 1997.

based on the statewide average base rate. SELPAs with base rates lower than the statewide average received equalization aid to bring their base rates up to the statewide average. This equalization process ended in 2000–01. With some remaining equalization funding, the state provided approximately \$15 per ADA to the lowest funded SELPAs in 2001–02.¹⁵

Economic Impact Aid

Funding under Economic Impact Aid (EIA) is calculated by multiplying a district’s unique per-pupil funding rate by the number of EIA eligible pupils. A district’s EIA eligible pupil count is the sum of the prior year’s EL count and current year Title I formula count. In very small districts, the Title I formula count is replaced by a proportion of free meals served.

In districts where more than half of the students are English learners or economically disadvantaged, a “weighted concentration factor” is added to the EIA eligible pupil count. In these districts, every EIA eligible pupil in excess of half of enrollment is counted twice.

In 2006–07, AB 1802¹⁶ revised the EIA formula¹⁷ and provided \$350 million for EIA rate equalization purposes. The equalization aid payment, called a “per-pupil settlement,” was designed to bring EIA rates up to a set target of \$600 per pupil. Each district’s per-pupil settlement was the difference between its EIA rate and \$600. If a district’s EIA rate exceeded \$600, it received no per-pupil settlement. The \$350 million appropriation was insufficient to bring every district to \$600 per eligible pupil, and so a proration factor was applied. Thus, each district received approximately 25 percent of the funding necessary to increase its EIA rate to \$600 per eligible pupil. The average district’s EIA rate increased from \$200 per eligible pupil in 2005–06 to \$303 per eligible pupil in 2006–07. The per-pupil settlement was folded into EIA rates and the new rate was carried forward to subsequent years.

Excluded Revenues

The Legislature excluded several categorical programs from the flex item for various reasons. These programs are not accounted for in the accompanying report. Table A3 reports those programs and the 2009–10 funding levels.

Additionally, the simulations in the accompanying report exclude other sources of state revenue, such as the state lottery and reimbursement for mandates. As previously described, some other funds associated with revenue limits and special education are also excluded. In total, the simulations presented in the accompanying report include all but approximately \$6.5 billion of state and local funds to school districts, including charter schools. The simulations account for approximately 90 percent of all district funds in 2009–10.

¹⁵ Goldfinger and Kubinec 2008.

¹⁶ Chapter 79, Statutes of 2006.

¹⁷ The EIA formula prior to 2006 was complex. See Legislative Analyst’s Office 2006.

Table A3.
Revenues excluded from the flex item and from analysis, 2009–2010

Program	Item	2009–10 funding (thousands)
Adults in Correctional Facilities	158	\$14,966 [†]
Apprenticeship	103	15,693 [†]
FCMAT	107	9,168 [†]
English Learner Assistance Program (ELAP)	125	50,549
Foster Youth Programs	119	15,095
California Partnership Academies	166	18,829
Agricultural Vocational Education Grants	167	4,134
Student Assessments	113	69,108 [†]
Charter School Facility Grants	220	56,700
Year Round Schools	224	46,558 [†]
K–12 Internet	182	8,340 [†]
Child Nutrition	201 & 203	134,044 [†]
Quality Education Investment Act (QEIA)		373,002
Proposition 49 – After School Education and Safety		550,000
Home to School Transportation	111	491,073
Child Care and Development	196	1,928,645 [†]
TOTAL		3,785,904

SOURCE: Funding Profiles (various programs), California Department of Education.

[†]May not reflect actions taken after the SBX3 4 (February 2009 Budget Act).

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