



PPIC

PUBLIC POLICY
INSTITUTE OF CALIFORNIA

Funding California Schools

The Revenue Limit System

March 2010

Margaret Weston

Supported with funding from The William and Flora Hewlett Foundation

Summary

California's 978 school districts receive the majority of their funding through a formula known as "revenue limits." Revenue limit funds can be used by school districts for general purposes, unlike funds received through categorical programs, which include restrictions on their use. Revenue limit funding is based on a complex series of formulas reflecting a long and complex history. And although it is commonly believed that revenue limit funds are equitably distributed because of a series of lawsuits in the 1970s and subsequent efforts to equalize funding per student, differences in funding per pupil can be significant.

Revenue limits were created in response to a lawsuit over inequities in funding per pupil based on the relative wealth of each school district. Under revenue limits each district has a base revenue limit, a dollar amount per pupil. A district's revenue limit entitlement is its base revenue limit multiplied by the number of students attending its schools. The number of students is measured by the district's average daily attendance (ADA). The revenue limit entitlement is funded 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. If a district's property tax revenue exceeds its entitlement, it retains these "excess taxes." The sum of the entitlement and any excess taxes are a district's revenue limit funds.

Although revenue limits were designed to eventually provide equal funding per pupil in every district, large variations in revenue limit funds per pupil remain. For example, for small elementary districts (districts with fewer than 250 students), the highest revenue limit funding per pupil in 2005–2006 was \$31,237, while the lowest funding per pupil was \$4,727—a difference of \$26,510 per pupil. This difference between the highest funds per pupil and the lowest is also substantial for other districts classified by type and size. Almost 60 percent of all students are in large unified districts, where the average funding level is \$85 per student lower than the statewide average. A difference of this magnitude can have significant effects for large school districts. For example, Fresno Unified School District has revenue limit funds of \$5,249 for each of its 71,697 students. If, instead, it was funded at the statewide average of \$5,341 per student, its total funding would increase by \$6.6 million.

To understand this variation in revenue limit funding, this paper breaks down revenue limit funds per student into seven components and analyzes each in turn. The most significant source of variation arises from local property taxes. A second significant source of variation comes from base revenue limits, which represent 97 percent of all revenue limit funds per student. The variation in base revenue limits is particularly important for large elementary and unified districts, which serve the majority of California's students.

In response to the inequities of California's current school finance system, the Governor's Committee on Education Excellence proposed replacing revenue limits with an alternative formula similar to the one currently used to finance California's charter schools. This alternative would reduce the variations in revenue limit funding and greatly simplify how California finances its schools.

Although the committee's proposed alternative has many benefits, it fails to address two features of revenue limits that may be worth preserving. California currently shields school districts from losses in revenue associated with declining enrollment. The Legislative Analyst's Office projects virtually no growth in enrollment statewide, and thus some districts may face large declines in the coming years. Revenue limits

also currently address California's geographic diversity through a special formula for very small rural districts. Although this formula may not be the most efficient or equitable method of financing these schools, any reform should address funding levels for small and rural schools, whose remoteness and size increases per student costs.

Revenue limits represent the single largest source of revenue for California's school districts. Although the equitable distribution of this funding is an important goal, California must also address other sources of inequity in its school finance system and provide adequate levels of funding to ensure that all students meet California's high standards of achievement.

Contents

Summary	2
Tables	5
Figures	6
Introduction	7
History of District Revenue Limits	8
Components of Revenue Limit Funding	9
Base Revenue Limit	11
Declining Enrollment Adjustment	13
Necessary Small School Adjustment	14
Locally Funded Charter School Adjustment	16
Unemployment Insurance Adjustment	18
All Other Adjustments	19
Excess Taxes	21
Effect of Component Elements on District Funding	24
California’s Equalization Policies	26
Reforming the Revenue Limit System	29
Simplifying Revenue Limit Adjustments	29
Moving Toward Equitable Revenue Limit Funding	31
Glossary	33
References	35
About the Author	37
Acknowledgments	37

All technical appendices to this paper are available on the PPIC website:
http://www.ppic.org/content/pubs/other/210MWR_appendix.pdf

Tables

Table 1.	Revenue limit funds per ADA by district type and size, 2005–2006	10
Table 2.	Base revenue limit by district type and size, 2005–2006	12
Table 3.	Declining enrollment adjustment by district type and size, 2005–2006	14
Table 4.	Necessary small school adjustment by district type and size, 2005–2006	15
Table 5.	Locally funded charter school adjustment by district type and size, 2005–2006	17
Table 6.	Unemployment insurance adjustment by district type and size, 2005–2006	19
Table 7.	All other adjustments by district type and size, 2005–2006	21
Table 8.	Excess taxes by district type and size, 2005–2006	22
Table 9.	Excess local property taxes by district type and size, 2005–2006	23
Table 10.	Revenue limit funds per ADA by district type and size, 2005–2006	24
Table 11.	Percent of total variance due to each component by district type and size, 2005–2006	25
Table 12.	Equalization aid by district type and size, 2006–2007	27
Table 13.	Base revenue limit by grade band, 2005–2006	27
Table 14.	Base funding alternative using 2005–2006 rates by grade band	28

Figures

Figure 1. Base revenue limit by district type and size, 2005–2006

12

Introduction

Tax revenue flows to California’s nearly 1,000 school districts through many different channels. According to the Governor’s Committee on Education Excellence (2007), this system is so complex that the state cannot determine how revenues are distributed among school districts, and after reviewing a large number of academic studies in the Getting Down to Facts project, Loeb, Bryk, and Hanushek (2007) conclude that California’s school finance system is irrational, inequitable, inefficient, and inadequate. The consensus in both the policy and research communities is that California’s system is in dire need of reform.

In response to this emerging consensus, there have been two notable reform proposals. In 2007, the Governor’s Committee on Education Excellence proposed to replace the current maze of revenue programs for districts with three simple and transparent programs: a base program providing for the general needs of school districts, a special education program providing additional funds for special education students, and a targeted program providing additional funds for districts with many English learners and economically disadvantaged students. Bersin, Kirst, and Liu (2008) proposed a similar structure. These proposals were analyzed in two previous PPIC reports.¹

Although both of these proposals focus primarily on combining many current revenue programs into the special education and targeted programs, the base program under both proposals constitutes more than three quarters of all funding. Under both proposals, this base would be built on top of existing revenue limit funds, a source of revenue for school districts dating back to the 1970s. Revenue limit funds combine property tax revenue and state aid to provide the bulk of revenue currently allocated to school districts. In concept, it is simple to calculate each district’s entitlement to these funds. In reality, the revenue limit entitlement is a complex series of formulas reflecting a long and complex history. And while it is commonly believed that revenue limit funds are equitably distributed because of a series of lawsuits in the 1970s and subsequent efforts to equalize funding per student, differences in funding per pupil can be significant. In 2005–2006, the difference in revenue limit funding between the state’s highest and lowest funded districts was \$26,510 per student.

This paper seeks to explain the differences in funding across districts by examining the variation in seven components of revenue limit funding. An accompanying [data set](#) lists revenue limit funds per pupil for each of California’s 978 districts in 2005–2006. The spreadsheet also lists the seven components for each district and explains why one district’s funding differs from another’s.²

¹ Reinhard et al., 2008; Rose et al., 2008.

² <http://www.ppic.org/main/dataSet.asp?i=1000>.

History of District Revenue Limits

Revenue limits stem from two events: The 1971 ruling of the California Supreme Court in *Serrano v. Priest* and the 1978 passage of Proposition 13. Prior to 1971, school districts in California levied their own property tax rates, and the state supplemented this local revenue.

However, this system began to crumble with *Serrano*: The Court ruled that the existing finance system was unconstitutional because differences in taxable wealth among districts led to differences in revenue per pupil.³ The California Legislature responded by establishing a ceiling on the revenue of each district.⁴ Each district's ceiling—its revenue limit—was determined by its 1972–1973 expenditures per pupil. These limits were to be increased over time, with larger increases for districts with relatively low revenue per pupil. Ultimately, these differential increases would equalize revenue per pupil across school districts, thus satisfying the Court.

However, revenue limits included a significant loophole: School districts could override their revenue limits through local referenda. Proposition 13 closed this loophole in 1978. This proposition capped the property tax rate at 1 percent, and subsequent legislation established a formula for allocating local property tax revenue among cities, counties, school districts, and special districts.⁵ The state assigned school districts a portion of the property tax revenue raised within their jurisdictions, and the state supplemented that local property tax revenue with enough funding to reach the district's revenue limit. By setting a district's revenue limit, the legislature determined its revenue. School financing was no longer under the control of local authorities.

Since the *Serrano* decision, the legislature has periodically enacted legislation to equalize revenue limits. The state uses two main equalization methods. First, the state uses the annual cost of living adjustment (COLA) to incrementally reduce differences in the revenue limits within the three types of districts (elementary, high school, and unified) each year.⁶ Second, the legislature occasionally provides supplemental funds to increase the revenue limits of low revenue districts. These supplemental funds become permanent increases to districts' revenue limits and provide a more dramatic increase to revenue limits than the annual COLA increases. (California's equalization policies are examined further in the final section of this paper.)

At various times, and for a variety of reasons (described in more detail in the next section and in [Technical Appendix A, Table A1](#)), the legislature has also enacted adjustments to revenue limits. Although revenue equality is still a priority, the current system reflects other priorities as well; and in many cases, these legislative adjustments have widened the disparity in per-pupil revenues across school districts.

³ The *Serrano* decisions, legal definitions of equity set by the Court, and subsequent legislation are complicated and were simplified for this paper. See Kemerer and Sansom (2009) and Sonstelie, Brunner, and Ardon (2000) for a more detailed history of California's school finance system.

⁴ SB 90 (Chapter 1406, Statutes of 1972).

⁵ AB 8 (Chapter 282, Statutes of 1979).

⁶ See SB 813 (Chapter 498, Statutes of 1983) for current COLA policy. Prior to 1983, AB 65 (Chapter 894, Statutes of 1977) governed COLA payments.

Components of Revenue Limit Funding

The key parameter in determining a district's revenue limit entitlement is its base revenue limit. The base revenue limit is a dollar amount per student unique to each district. In 2005–2006, the average base revenue limit was \$5,183. The first step in calculating the revenue limit entitlement is to multiply the district's base revenue limit by its number of students. For this purpose, the number of students is measured by the district's average daily attendance (ADA).⁷ The product of a district's base revenue limit and its ADA is its *total* base revenue limit, or total dollar amount. The state then adds and subtracts funding called "revenue limit adjustments." These revenue limit adjustments result from special legislation, policy decisions, and accounting practices introduced at various times over the past forty years. The sum of the total base revenue limit and all revenue limit adjustments is the revenue limit entitlement.⁸ The revenue limit entitlement is a total funding level for the district. From the revenue limit entitlement, the state subtracts the district's share of local property tax revenues to determine the amount of state aid. Some districts have more local property tax revenues than their entitlement and do not receive any state aid. These districts are commonly labeled "basic aid" or "excess tax" districts. Excess tax districts keep the excess property taxes and may spend them for any purpose. In 2005–2006, there were 79 excess tax districts, serving less than 3 percent of all K–12 students.

This paper focuses on revenue limit funds. In most cases a district's revenue limit funds are the same as its entitlement. For excess tax districts, revenue limit funds include the entitlement plus excess local property taxes. Revenue limit funds also include a few other sources of general purpose funding comparable to, but not technically considered, a revenue limit adjustment. Where those sources are included, they are explained and a rationale for including them is offered.

Revenue limit funds vary from district to district for one obvious and uncontroversial reason: Districts with more students have higher revenue limit funds. However, it is also the case that districts with the same number of students can have quite different revenue limit funds, a variation that is not so free of controversy. This section focuses on those variations—the variations in revenue limit funds per student.

To facilitate this analysis, school districts are partitioned into nine groups based on their type and size. California has three district types: elementary, high school, and unified districts. Generally, elementary districts serve students in primary grades, but not high school students; high school districts serve high school students, but not students in primary grades; and unified districts serve students in all grades from kindergarten through high school.⁹ Among district types, districts are further partitioned by size. For each type, the partitions were chosen to yield three groups with roughly equal number of districts in each group. These three groups are referred to as small, medium, and large.

The distribution of revenue per pupil within each group is described by three statistics: the mean, the range, and the interquartile range. The mean is the average revenue per pupil across all students within the district group.

⁷ See the [technical appendices](#) for a detailed explanation of the ADA calculation used by CDE and how the measure used in this paper differs. In this paper, ADA, pupil, and student are used interchangeably.

⁸ [Technical Appendix A](#), Table A1 provides the revenue limit calculation computed by CDE, a description of each revenue limit adjustment, the number of districts receiving each adjustment, and the statewide total funding for each adjustment in 2005–2006.

⁹ There are some exceptions. Nineteen elementary districts serve high school students, and five high school districts serve students in grades K–3 or 4–6.

The two other statistics describe the variation in revenue per pupil within a group. The interquartile range is the difference between the revenue per pupil of the student at the 75th percentile and the revenue per pupil of the student at the 25th percentile in the group. The range is the difference between the highest revenue per pupil and the lowest revenue per pupil in the group.

Revenue limit funds per student vary considerably across California’s 978 school districts. In 2005–2006, the average revenue limit funds per ADA was \$5,341, but the difference between the highest and lowest revenue limit funds per ADA was \$26,510 (Table 1). Some types of districts, particularly small districts and high school districts, had much higher mean revenue limit funds per ADA. For example, the average revenue limit funds per ADA for small high school districts was \$7,681 per ADA—\$2,340 per ADA higher than the statewide average of \$5,341. The majority of California’s students attend schools in large elementary districts and unified districts. These districts have the lowest revenue limit funds per ADA and notably less variation in funding than small districts and high school districts, as demonstrated by the lower interquartile ranges and ranges reported in Table 1.

TABLE 1
Revenue limit funds per ADA by district type and size, 2005–2006

Type and size of district		Number of districts	Mean revenue limit funds (\$/ADA)	Interquartile range (\$/ADA)	Range (\$/ADA)
Elementary	Small (0–250 ADA)	191	6,227	1,086	26,510
	Medium (251–1,500 ADA)	182	5,359	296	11,925
	Large (1,501+ ADA)	184	5,073	170	3,452
High school	Small (0–1,500 ADA)	26	7,681	1,351	22,801
	Medium (1,501–6,000 ADA)	29	6,332	199	3,398
	Large (6,001+ ADA)	31	6,077	98	2,990
Unified	Small (0–3,000 ADA)	129	6,008	728	18,002
	Medium (3,001–10,000 ADA)	98	5,271	167	1,650
	Large (10,001+ ADA)	108	5,256	147	2,959
All districts		978	5,341	193	26,510

To understand the variation in revenue limit funds per student, this paper simplifies the revenue limit entitlement calculation by describing revenue limit funds per pupil as the sum of seven broad components. The first component is a district’s base revenue limit. The remaining six components explain the difference between a district’s revenue limit funds per ADA and its base revenue limit. These six components are the declining enrollment adjustment, the necessary small school adjustment, the locally funded charter school adjustment, the unemployment insurance adjustment, all other adjustments, and excess taxes. Using these seven components, revenue limit funds per pupil may be expressed as:

- Base Revenue Limit*
- + Declining Enrollment Adjustment*
- + Necessary Small School Adjustment*
- + Locally Funded Charter School Adjustment*
- + Unemployment Insurance Adjustment*
- + All Other Adjustments*
- + Excess taxes*

Explaining variations in revenue limit funds per pupil then comes down to explaining variations in each of these seven components.

This paper uses CDE fiscal data for 2005–2006, the most recent year for which audited and certified data are fully available for each district. Equalization aid from 2006–2007 was manually downloaded from the CDE website. More information about data and methods employed in this paper is available in the [technical appendices](#).

In the following sections, we define each component and provide statistics on the variations of that component across school districts. Table A2 in the [technical appendices](#) summarizes this information.

Base Revenue Limit

The largest component by far is the base revenue limit, representing 97 percent of the statewide average revenue limit funds per ADA. The base revenue limit is a unique funding amount per ADA that stems from a district’s 1972–1973 expenditures per pupil.

In most years, the base revenue limit is calculated by adjusting the prior year’s base revenue limit for inflation, the “cost of living adjustment” or COLA. Changes to the calculation are rare. In years when the legislature provides equalization aid, districts with low limits receive a larger increase. That increased limit becomes the base from which subsequent increases are made, thus providing a permanent increase in funding. Aside from equalization aid, there have been only two major changes to the base revenue limit. The first occurred in 1983, when incentive funding to extend the school day and year was permanently added to the base revenue limit.¹⁰ The second resulted from changes to the state’s excused absence policy in 1997.¹¹ Prior to that time, ADA counts included students who were absent from school but had legitimate excuses for their absence. Under the new policy, these students were no longer counted. To ease the transition to this new policy, districts with high rates of excused absences received increases to their base revenue limit.

In 2005–2006, the average base revenue limit was \$5,183 per ADA, although the mean varied across the different types of districts (Table 2). High school districts had the highest base revenue limits, compared to elementary and unified districts. On average, high school districts received almost \$1,000 per ADA more than elementary districts and over \$780 per ADA more than unified districts.

Base revenue limits also vary considerably among districts of the same type. This variation is greatest among small districts, especially in the case of small elementary school districts, where the difference between the highest and lowest base revenue limit is \$3,871 (see Table 2). Another measure of variation is the interquartile range, the difference in the base revenue limit between the district at the 75th percentile for that group and the district at the 25th percentile. For small elementary districts, the interquartile range is \$456 per pupil. In comparison, the interquartile range is only \$40 per pupil for large elementary districts. Despite the equalization of base revenue limits, both measures of variation are significant, particularly for small districts.

¹⁰ SB 813 (Chapter 498, Statutes of 1983).

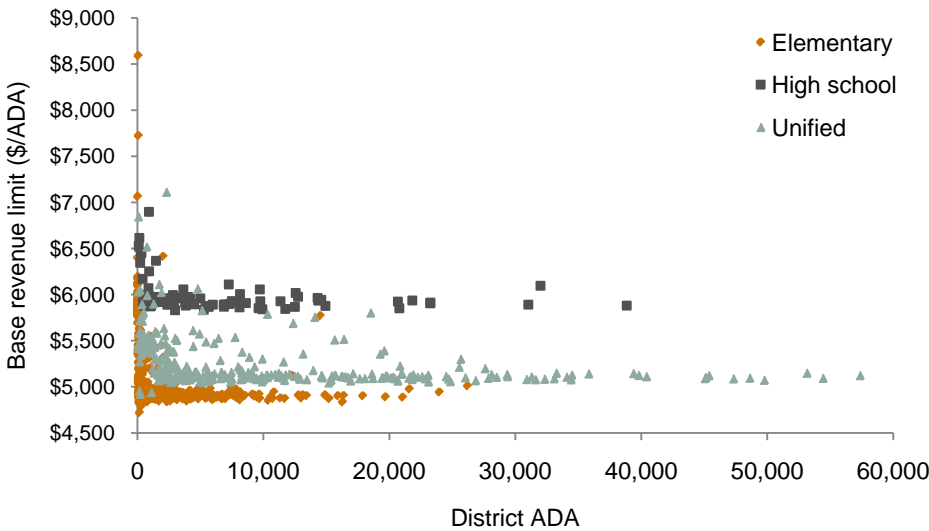
¹¹ SB 727 (Chapter 855, Statutes of 2007).

TABLE 2
Base revenue limit by district type and size, 2005–2006

Type and size of district		Number of districts	Mean base revenue I Limit (\$/ADA)	Interquartile range (\$/ADA)	Range (\$/ADA)
Elementary	Small (0–250 ADA)	191	5,199	456	3,871
	Medium (251–1,500 ADA)	182	4,949	60	1,108
	Large (1,501+ ADA)	184	4,932	40	1,578
High school	Small (0–1,500 ADA)	26	6,067	157	1,025
	Medium (1,501–6,000 ADA)	29	5,922	70	256
	Large (6,001+ ADA)	31	5,928	63	269
Unified	Small (0–3,000 ADA)	129	5,340	336	2,191
	Medium (3,001–10,000 ADA)	98	5,175	67	1,015
	Large (10,001+ ADA)	108	5,136	38	758
All districts		978	5,183	64	3,871

The trends in base revenue limit variation by district type and size are evident in Figure 1. For each type of district, there is considerable variation in base revenue limits for small districts. As district size increases, the variation in base revenue limits decreases.

FIGURE 1
Base revenue limit by district type and size, 2005–2006



NOTES: Unified districts excludes Fresno Unified (71,697 ADA; \$5,142 per ADA), Long Beach Unified (88,265 ADA; \$5,078 per ADA), San Diego Unified (112,688 ADA; \$5,104 per ADA), and Los Angeles Unified (644,928 ADA; \$5,133 per ADA).

The differences in base revenue limits across type and size partly reflect the form in which equalization has been implemented over time. Current equalization policy focuses on bringing base revenue limits to the 90th percentile of funding within six type-size categories. In contrast to this paper, which uses three size categories per type (elementary, high school, and unified), state policy uses only two size categories per type. The cutoff for

inclusion in the small district category is 101 ADA for elementary districts, 301 ADA for high school districts, and 1,501 ADA for unified districts.¹² Accordingly, equalization aid has been used to increase the revenue limits of districts that are below the 90th percentile for their type and size. Equalization of this form reduces inequities within groups, but may increase them across groups.

Of course, districts of different types and sizes may face different costs, a rationale for the way districts are grouped for equalization purposes. All districts face certain fixed costs, such as a superintendent and school board, but small districts lack economies of scale, which results in higher average costs per pupil than in large districts. Similarly, high school districts may face higher costs than elementary districts because of specialized subjects and equipment for laboratories or career-technical education. Under this funding theory, unified districts, which serve all grades, would be funded at an average of elementary and high school district levels. This is not the current reality. Unified district students are funded \$67 per ADA lower than the average of elementary and high school district base revenue limits.¹³ The mean base revenue limit for unified districts is \$212 per ADA higher than the mean for elementary districts and \$781 per ADA lower than the mean for high school districts.

Declining Enrollment Adjustment

In the revenue limit calculation, if a district's regular ADA declines from the prior year, the prior year's ADA is used to calculate the total base revenue limit. This procedure is intended to shield districts with declining enrollment from large reductions in their revenue. In 2005–2006, 545 of the state's 978 districts experienced declining enrollment.

In this paper, the declining enrollment adjustment is defined as the additional funding per ADA that a district receives because the prior year's ADA is used in determining its entitlement, rather than the current year's ADA. It is calculated by first taking the difference in the district's prior year and current year regular ADA and multiplying this difference by the district's base revenue limit. That product is then divided by the district's total ADA. The declining enrollment adjustment is zero if a district's enrollment is stable or growing. This calculation may be summarized as follows:

$$\frac{\text{Base Revenue Limit} \times (\text{Prior Year ADA} - \text{Current Year ADA})}{\text{Total District ADA}}$$

In 2005–2006, the declining enrollment adjustment totaled \$402 million. For districts with declining enrollment, the statewide average adjustment was \$111 per ADA (Table 3). As with the base revenue limit, there is considerable variation. The smallest adjustment was 17 cents per pupil and the largest was \$2,772 per ADA (not shown in the table). Generally, smaller districts have larger adjustments, reflecting the reality that enrollment in many small districts in California is declining the most rapidly in percentage terms. Similarly, the ranges are larger for smaller districts than for medium and large districts.

¹² *Education Code 42238.44.*

¹³ The mean base revenue limit for unified districts is \$5,150 per ADA. The mean base revenue limit for elementary districts is \$4,938 per ADA and \$5,931 per ADA for high school districts. Since one-third of all unified students are in grades 9–12, the mean unified base revenue limit would be two-thirds of the elementary mean plus one-third of the high school mean, or \$5,217 per ADA.

TABLE 3
Declining enrollment adjustment by district type and size, 2005–2006

Type and size of district		Number of districts	Percent of districts with adjustment (%)	Mean declining enrollment adjustment (\$/ADA)	Interquartile range (\$/ADA)	Range (\$/ADA)
Elementary	Small (0–250 ADA)	191	43.5	356	373	2,766
	Medium (251–1,500 ADA)	182	62.1	192	182	1,761
	Large (1,501+ ADA)	184	60.9	120	116	371
High school	Small (0–1,500 ADA)	26	61.5	146	100	536
	Medium (1,501–6,000 ADA)	29	44.8	108	82	292
	Large (6,001+ ADA)	31	29.0	39	44	171
Unified	Small (0–3,000 ADA)	129	66.7	153	118	1,657
	Medium (3,001–10,000 ADA)	98	49.0	97	112	286
	Large (10,001+ ADA)	108	60.2	108	68	325
All districts		978	55.7	111	84	2,771

The mean adjustments across different district types reveal other patterns in declining enrollment. For example, high school districts have lower mean declining enrollment adjustments, even comparing districts with similar sizes. Small high school districts have a mean of \$146 per ADA, compared to means for small and medium elementary districts of \$356 and \$192 per ADA, respectively (see Table 3). These differences reflect variations in declining enrollment. In 2005–2006, small and medium elementary districts saw a decline in enrollment of approximately 3.7 and 2.6 percent, respectively, compared to an average 1.7 percent in small high school districts. Large high school districts had the lowest percent decline in enrollment at 0.2 percent.

Necessary Small School Adjustment

The necessary small school (NSS) adjustment augments a district’s revenue limit entitlement to offset the additional costs of operating schools that must be smaller than is efficient because of sparse population or other factors. For districts with eligible schools, a separate entitlement is calculated for the students in those schools. Districts must have fewer than 2,501 ADA, have an elementary school with fewer than 96 ADA or a high school with fewer than 286 ADA, and meet the criteria of a “necessary” small school. The criteria are specified in *Education Code* 42283 and generally relate to the topographical conditions of the district and the proximity of other public schools. The entitlement for students in necessary small schools is calculated using a formula based primarily on the staffing needs of the school. In 2005–2006, the funding ranged from \$108,975 to \$435,900 for elementary schools and from \$176,920 to \$1,454,700 for high schools.

The NSS adjustment used in this paper¹⁴ is calculated by computing the difference between the NSS entitlement of students in necessary small schools and the entitlement those students would have generated with the base revenue limit of their district. That difference is divided by the district’s total actual ADA. This calculation may be summarized as follows:

$$\frac{\left[\frac{\text{Necessary Small School Funding}}{\text{NSS ADA}} - \text{Base Revenue Limit} \right] \times \text{NSS ADA}}{\text{Total District ADA}}$$

The NSS adjustment totaled \$38 million in 2005–2006. To be clear, the NSS alternative formula generated \$111 million in 2005–2006; the \$38 million calculated in the adjustment represents the revenue per pupil in addition to the base revenue limit for the 144 districts receiving NSS funding.

Although relatively few districts, less than 15 percent, received the NSS adjustment in 2005–2006, the adjustment was significant for many of them. The mean adjustment was \$453 per ADA (Table 4) and the largest adjustment was \$20,526 per ADA. For small elementary districts receiving the adjustment, the mean was \$1,430 per ADA. This higher mean can be attributed to 44 small elementary districts completely funded through the NSS formula. For these districts, the NSS funding formula provided \$2,930 more per pupil, on average, than these districts would have received using base revenue limits.

As to be expected, most of the NSS adjustments were for small districts. However, there was considerable variation among those districts. The interquartile range for small elementary and high school districts exceeded \$1,400 per ADA.

TABLE 4
Necessary small school adjustment by district type and size, 2005–2006

Type and size of district		Number of districts	Percent of districts with adjustment (%)	Mean necessary small school adjustment (\$/ADA)	Interquartile range (\$/ADA)	Range (\$/ADA)
Elementary	Small (0–250 ADA)	191	31.4	1,430	1,480	21,104
	Medium (251–1,500 ADA)	182	3.8	142	135	406
	Large (1,501+ ADA)	184	1.1	31	7	7
High school	Small (0–1,500 ADA)	26	23.1	1,159	1,488	2,103
	Medium (1,501–6,000 ADA)	29	0.0	0	0	0
	Large (6,001+ ADA)	31	0.0	0	0	0
Unified	Small (0–3,000 ADA)	129	51.9	608	693	17,155
	Medium (3,001–10,000 ADA)	98	1.0	13	0	0
	Large (10,001+ ADA)	108	0.9	32	0	0
All districts		978	14.7	453	464	21,104

Two outlier districts warrant some attention. The first is a very small K–8 district serving less than 5 students in 2005–2006. Under the NSS formula, it received \$26,401 per ADA. Had it used base revenue limit funding,

¹⁴ The NSS adjustment reported in this paper incorporates funding for the Boys Republic High School in Chino Valley Unified. See the accompanying data set at <http://www.ppic.org/main/dataSet.asp?i=1000>.

these students would have generated \$5,875 per ADA. Another small elementary district had an adjustment of \$578 per ADA. This negative adjustment means that the district would have generated more revenue per ADA using the base revenue limit (\$5,947 per ADA) than it actually received using the NSS formula (\$5,369 per ADA).¹⁵

Locally Funded Charter School Adjustment

California’s charter schools may be either direct funded or locally funded. Direct funded charters are financially independent of any school district or county office of education and are often run by nonprofit entities called charter management organizations. In contrast, locally funded charter schools are operated by school districts or county offices of education. Because they are charter schools, they are free of many rules and regulations that apply to regular schools in a district. From a financial viewpoint, however, locally funded charters differ from regular schools only in the rates at which students generate revenue for the district. Students in regular schools generate revenue through the revenue limit system. Students in locally funded charters generate revenue through the charter school block grant.

All charter schools receive in-lieu revenue limit funding through the charter school block grant. There are two main differences between the charter school block grant and revenue limits. The first is that, unlike district revenue limits, every charter school receives the same funding per student; funding per charter school ADA is the same regardless of the district in which the charter school operates. Second, in regular district schools, all students generate the same funding. In charter schools, funding per ADA is different for different grade bands to reflect the differences in costs to educate students in different grade levels. The grade band rates are annually calculated based on the statewide averages of revenue limit funding for those grand bands.¹⁶ In 2005–2006, the funding rates were \$4,970 for grades K–3, \$5,040 for grades 4–6, \$5,182 for grades 7–8, and \$6,019 for grades 9–12. Because the rates are based on statewide averages, in some districts, the charter school block grant provides more funding than revenue limits; in others, it provides less. The locally funded charter school adjustment captures that funding difference. It is calculated by first taking the difference between the average charter school block grant per charter ADA¹⁷ a district receives and the funding it would have received if the students in those schools had been funded by the district’s base revenue limit. That difference is then divided by the total actual ADA of the district, which includes locally funded charter school ADA. This calculation may be summarized as follows:

$$\frac{\left[\frac{\text{Charter School Block Grant}}{\text{Charter School ADA}} - \text{Base Revenue Limit} \right] \times \text{Charter School ADA}}{\text{Total District ADA}}$$

¹⁵ See the [technical appendices](#) for each district’s component funding and total revenue limit funds per ADA.

¹⁶ The statewide revenue limit funding averages used to determine the charter school block grant grade band rates exclude necessary small school funding and excess taxes. See *Education Code 47633-47635*.

¹⁷ The district’s average charter school block grant rate will vary depending on the grade levels of students served by charter schools. If, for example, a charter serves only high school students, its average block grant rate will be the rate for grades 9–12: \$6,019 per ADA. But, if half of the students are in grades 7–8 and half are in grades 9–12 the district’s average block grant rate would be the mean of the two funding rates for those grade bands: \$5,600.50.

The locally funded charter school adjustment can be positive or negative. To illustrate these two possibilities, imagine the following scenario. District A and B each serve 5,000 student, of which 1,000 attend locally funded charters. District A has a base revenue limit of \$5,000 per ADA. In that district the average charter school block grant funding is \$5,500 per ADA. The district receives \$500 more per charter school student, resulting in a total funding increase of \$500,000. The locally funded charter school adjustment is that funding divided by all 5,000 students in the district, or \$100 per ADA. District B is the reverse situation. District B's base revenue limit is \$6,000 per ADA. One thousand of its 5,000 students attend charter schools, with average funding of \$5,500 per ADA. The district receives \$500 less per charter school pupil than it would receive under base revenue limits, a loss of \$500,000. The locally funded charter school adjustment is that funding divided by all 5,000 students in the district, or \$100 per ADA.

The adjustment for all locally funded charters in the state totaled \$3.4 million in 2005–2006. The \$3.4 million calculated adjustment represents the revenue in addition to the base revenue limit for the 113 districts receiving funding; locally funded charters actually received \$273 million under the charter school block grant in 2005–2006. Seven districts are all charter districts funded through the district's revenue limit system instead of the charter school block grant. For these districts, the locally funded charter school adjustment is zero.

For districts with a locally funded charter school adjustment, the average adjustment was \$2 per ADA (Table 5). One-third of districts had a negative adjustment, contributing to the widely varying means and ranges by district size and type. Unlike the components previously described, the locally funded charter school adjustment reveals no consistent pattern by district size and type. The statewide average and interquartile range suggest that the charter school block grant, on average, provides similar funding levels to the base revenue limit. However, the statewide range of \$1,625 per ADA suggests that the magnitude of the adjustment can be quite large for a few districts, particularly medium and large elementary districts.

TABLE 5
Locally funded charter school adjustment by district type and size, 2005–2006

Type and size of district		Number of districts	Percent of districts with adjustment (%)	Mean locally funded charter school adjustment (\$/ADA)	Interquartile range (\$/ADA)	Range (\$/ADA)
Elementary	Small (0–250 ADA)	191	0.5	135	0	0
	Medium (251–1,500 ADA)	182	13.2	61	117	974
	Large (1,501+ ADA)	184	12.5	(1)	26	1,287
High school	Small (0–1,500 ADA)	26	11.5	0	22	22
	Medium (1,501–6,000 ADA)	29	17.2	(23)	75	77
	Large (6,001+ ADA)	31	25.8	(7)	4	64
Unified	Small (0–3,000 ADA)	129	6.2	(41)	50	212
	Medium (3,001–10,000 ADA)	98	15.3	9	19	66
	Large (10,001+ ADA)	108	24.1	2	1	56
All districts		978	11.6	2	3	1,625

The magnitude of the locally funded charter school adjustment depends largely on the proportion of district students attending locally funded charter schools. For example, one district's very large negative adjustment is explained by two facts. The first is that this district's base revenue limit is high (\$6,414 per ADA) compared to the

average charter school student funding per charter ADA (\$5,208). Each charter school student is, on average, generating \$1,206 less than regular district students. The second fact is that approximately 95 percent of its 2,040 students attend locally funded charters. If the district instead served 95 percent of all students in regular district schools, the adjustment would be much smaller at approximately \$60.

Unemployment Insurance Adjustment

In addition to the adjustments previously described, the revenue limit system also incorporates several smaller and more specific adjustments. Generally, these adjustments stem from attempts to buffer schools from changes that adversely affected their finances. A good example is the adjustment made for changes in Unemployment Insurance (UI) rates.

The UI program provides benefits to California workers who have lost their jobs through no fault of their own. It is financed by employers who pay taxes on the wages paid to each worker. The tax rate varies by employer, based on the history of benefits paid to the employer's former employees.

Districts may participate in a separate UI program called the School Employees Fund.¹⁸ Under the School Employees Fund, districts send quarterly payments based on a percentage of total employee wages. This percentage is the same for all districts. In 2005–2006 the base contribution rate was 0.45 percent. However, some districts may incur additional costs based on the amount of UI benefits paid to former employees. This additional levy varies from zero to 15 percent.

The UI revenue limit adjustment is intended to compensate districts for any increases in UI costs since 1975–1976. To be eligible for the adjustment, a school district must have made unemployment expenditures in 1975–1976. UI expenditures are the payments a district makes to the School Employees Fund or the traditional statewide UI program.¹⁹ A district's 1975–1976 unemployment insurance expenditures are subtracted from its current year expenditures, excluding those spent for charter schools funded through the charter school block grant. If that result is positive, the result is added to the district's revenue limit entitlement, essentially reimbursing it for increases in UI expenditures since 1975–1976. Districts with the same or lower total UI costs than 1975–1976 receive no funding. In this paper, the unemployment insurance adjustment is the reimbursement for changes in unemployment insurance expenditures divided by the district's ADA, that is:

$$\frac{\text{UI Revenue Limit Adjustment Funding}}{\text{Total District ADA}}$$

The state's total expenditure on the UI revenue limit adjustment was \$135 million in 2005–2006; this represents an average of \$23 per ADA (Table 6). There is little variation by district type and size; the mean in every district type-size category is within \$2 per ADA of the statewide mean. Less than 1 percent of all students are in districts with an adjustment greater than \$35 per ADA. As with the other components, there are some outliers, although the magnitude and variation of funding per ADA is relatively small.

¹⁸ The School Employees Fund is a special UI program that local education agencies may elect over the traditional UI programs for private and nonprofit employers. More information is available from the California Employment Development Department (2008), *California Unemployment Insurance Code* Sections 821-832, and *Education Code* Section 1330.

¹⁹ The School Employees Fund was established in 1978. Thus, 1975–1976 expenditures were to the traditional UI programs.

TABLE 6
Unemployment insurance adjustment by district type and size, 2005–2006

Type and size of district		Number of districts	Percent of districts with adjustment (%)	Mean unemployment insurance adjustment (\$/ADA)	Interquartile range (\$/ADA)	Range (\$/ADA)
Elementary	Small (0–250 ADA)	191	99.0	24	7	195
	Medium (251–1,500 ADA)	182	99.5	22	6	39
	Large (1,501+ ADA)	184	100.0	22	4	42
High school	Small (0–1,500 ADA)	26	100.0	24	4	29
	Medium (1,501–6,000 ADA)	29	100.0	24	3	22
	Large (6,001+ ADA)	31	100.0	24	4	11
Unified	Small (0–3,000 ADA)	129	99.2	25	5	76
	Medium (3,001–10,000 ADA)	98	100.0	23	3	32
	Large (10,001+ ADA)	108	100.0	24	7	34
All districts		978	99.6	23	5	197

All Other Adjustments

Funds in this category are the net result of modifications to the base revenue limit in addition to the five components discussed above. The “all other adjustments” component includes twelve revenue limit adjustments and two adjustments that occur outside the revenue limit calculation but that are comparable to it. The twelve revenue limit adjustments are described in the tables found in the [technical appendices](#).

Many of these adjustments are very small or affect only a handful of districts. Others reflect CDE’s accounting procedures. One example is the penalty for exceeding the statutory maximum class size. Rather than send a bill to districts that exceed the maximum class size, the state reduces the district’s revenue limit entitlement the following year.

The two adjustments outside of the revenue limit calculation are the Basic Aid Choice/Court-Ordered Voluntary Pupil Transfer (BAC) and the county office transfer (COT). The BAC partially offsets certain fiscal disincentives for excess tax districts (i.e., those districts with more local property tax revenue than their revenue limit entitlement). In such districts, an additional student does not generate additional revenue, creating a disincentive for those districts to accept nonresident students. To partially offset this disincentive, the BAC provides additional funding for each nonresident student equal to 70 percent of the base revenue limit of the district in which the student resides.²⁰ The BAC adjustment is the difference between this amount and the district’s base revenue limit, a difference that is negative in every basic aid district. In 2005–2006, 17 districts received \$4.8 million in BAC funding. This calculation may be summarized as follows:

$$\frac{\left[\frac{\text{Basic Aid Choice}}{\text{BAC ADA}} - \text{Base Revenue Limit} \right] \times \text{BAC ADA}}{\text{Total District ADA}}$$

²⁰ Education Code 48310(c) and 41544(a).

District and County Office of Education (COE) revenue limit funding are connected through the COT. In calculating a district’s revenue limit, students residing in the district who attend county special education day classes or county community day schools²¹ are counted in the ADA of the district. As a consequence, the district receives revenue for those students. However, the district must then transfer funds to the county office for those students. In that sense, the funds are merely passed through the district to the county office, but the rate at which the district receives funds for students is not always the rate at which it must transfer funds to the county office for students in COE schools and programs. As a consequence, the COT can increase or reduce funds per ADA in district-operated schools. In 2005–2006, 781 districts transferred students to the authority of the county offices. In 70 of those districts, the COT reduced funds per ADA in district-operated schools. The COT adjustment may be summarized as follows:

$$\frac{[\text{Base Revenue Limit} - \frac{\text{County Office Transfer}}{\text{COT ADA}}] \times \text{COT ADA}}{\text{Total District ADA}}$$

The “all other adjustments” component is the sum of the twelve revenue limit adjustments divided by the district’s ADA. The result is then added to the BAC adjustment and COT adjustment. This component is largely determined by three large adjustments: the Beginning Teacher Salary incentive funding adjustment (BTS), the Meals for Needy Pupils revenue limit adjustment (MNP), and the Public Employees Retirement System (PERS) revenue limit adjustment. The BTS provides ongoing funding for two teacher salary incentive programs from 1999–2000 and 2000–2001. Districts continue to receive the incentive funding as long as they do not reduce beginning teacher salaries from the prior year. The MNP adjustment relates to special property taxes prior to Proposition 13. It is a source of unrestricted revenue and does not need to be spent on school nutrition programs. The PERS adjustment recaptures any savings resulting from a lower employer contribution rate to PERS than the 1981–1982 rate of 13.02 percent. The state subtracts any revenues associated with district PERS contribution rates lower than 13.02 percent.

In 2005–2006, the “all other adjustments” component totaled \$63 million. All but two districts were subject to one of the many revenue limit adjustments included in this component, but the average adjustment was quite small, \$11 per ADA (Table 7). The BTS adjustment averaged \$16 per pupil, the MNP adjustment averaged \$27 per pupil, and the PERS adjustment reduced revenue limit entitlements by an average of \$33. All of the remaining adjustments reduced entitlements by less than ten cents, on average.

The large mean and range for small high school districts is due to a very large outlier. One small high school district’s MNP revenue limit adjustment is the largest in the state at \$22,023 per ADA. When that outlier district is excluded from the calculations for small high school districts, the mean, interquartile range, and overall range drop to \$128, \$130, and \$1,187 per ADA, respectively. Excluding that district brings the statistics for small high school districts more in line with small elementary and small unified districts.

²¹ The COT also includes special education students whose nonpublic school (NPS) or licensed children’s institution (LCI) placements are the responsibility of the county. Other COE students, such as juvenile court, expelled, and homeless students, are funded through the county office of education revenue limit.

TABLE 7
All other adjustments by district type and size, 2005–2006

Type and size of district		Number of districts	Percent of districts with adjustment (%)	Mean all other adjustments (\$/ADA)	Interquartile range (\$/ADA)	Range (\$/ADA)
Elementary	Small (0–250 ADA)	191	99.0	41	128	2,008
	Medium (251–1,500 ADA)	182	100.0	16	48	604
	Large (1,501+ ADA)	184	100.0	10	24	1,233
High school	Small (0–1,500 ADA)	26	100.0	1,169	131	21,810
	Medium (1,501–6,000 ADA)	29	100.0	11	39	233
	Large (6,001+ ADA)	31	100.0	25	64	4,224
Unified	Small (0–3,000 ADA)	129	100.0	62	80	2,082
	Medium (3,001–10,000 ADA)	98	100.0	4	37	146
	Large (10,001+ ADA)	108	100.0	1	25	290
All districts		978	99.8	11	26	22,440

Excess Taxes

Excess taxes are local revenues in excess of a district’s revenue limit entitlement. These funds are unrestricted revenue that can be used at the district’s discretion. Local revenue includes property tax revenue, timber yield taxes, and community redevelopment revenue.

In this paper, two other revenue sources are included in excess taxes. The first is Miscellaneous Revenues. When calculating the local revenues that offset state aid in the revenue limit calculation, the state counts 50 percent of royalties, bonuses, and in-lieu taxes on mineral wealth. The remaining 50 percent is unrestricted funding that can be used at the district’s discretion. For this reason, this remaining 50 percent is included in the excess tax component. In 2005–2006, 208 districts had miscellaneous revenues, totaling \$338,791 statewide. The average amount was \$0.21 per ADA.

The second type of funding included in the excess tax component is the Basic Aid Supplement Charter School Adjustment (BAS). This program is similar to the Basic Aid Choice/Court-Ordered Voluntary Pupil Transfer (BAC) in that it compensates excess tax districts for the revenue loss they incur when they accept nonresident students. The BAC compensates excess tax districts for nonresident students in regular districts schools while the BAS compensates excess tax districts for nonresident students in charter schools.²² The BAS provides to the excess tax district an amount equal to 70 percent of the revenue limit per ADA of the district in which the student resides.²³ The funding does not go to the charter schools. Rather it is retained by the district to compensate it for lost property taxes transferred to charter schools located in the district. The funding from this

²² All districts must transfer a portion of their local property taxes to charter schools within district boundaries. That funding is then used to offset state aid provided to charter schools through the charter school block grant. Excess tax districts, however, receive no state aid. Thus, excess tax districts face a fiscal disincentive to accept nonresident charter school students because the district must still transfer property taxes to charter schools for those students. This reduces the revenue available to the district for resident students in regular schools. The BAS offsets the fiscal disincentive by partially backfilling the property taxes transferred to the charter school on behalf of nonresident students.

²³ *Education Code 47663.*

program is essentially property tax revenue of the district and is therefore included in the excess tax component. In 2005–2006, six districts received a total of \$3.4 million. The average funding was \$278 per ADA.

The excess tax component is defined as the sum of excess local property taxes, Miscellaneous Revenues, and the Basic Aid Supplement Charter School Adjustment divided by the district’s ADA, that is:

$$\frac{\text{Excess Local Property Taxes} + \text{Miscellaneous Revenues} + \text{BAS}}{\text{Total District ADA}}$$

The excess tax component totaled \$268 million in 2005–2006. Approximately 30 percent of all students attend school in 208 districts with excess taxes. The average excess tax component was \$153 per ADA (Table 8). The amount of excess taxes per student varies considerably, as indicated by the \$25,118 per ADA range. The additional revenue is large for some of these districts and may exacerbate some of the per-pupil revenue differences that exist in the base revenue limit and other components. For example, elementary districts have an average of \$3,217 per student in excess taxes compared to \$45 per ADA in large unified districts (see Table 8). As is the case in the base revenue limits and many of the components of the total revenue limit funding, small districts generally have much higher means and ranges than medium and large districts.

TABLE 8
Excess taxes by district type and size, 2005–2006

Type and size of district		Number of districts	Percent of districts with adjustment (%)	Mean excess taxes (\$/ADA)	Interquartile range (\$/ADA)	Range (\$/ADA)
Elementary	Small (0–250 ADA)	191	17.3	3,217	5,146	25,118
	Medium (251–1,500 ADA)	182	20.9	1,300	2,307	11,623
	Large (1,501+ ADA)	184	20.1	206	2	3,448
High school	Small (0–1,500 ADA)	26	23.1	653	1,117	5,967
	Medium (1,501–6,000 ADA)	29	44.8	871	2,329	3,144
	Large (6,001+ ADA)	31	38.7	228	0	2,539
Unified	Small (0–3,000 ADA)	129	26.4	1,107	378	9,276
	Medium (3,001–10,000 ADA)	98	19.4	109	0	1,472
	Large (10,001+ ADA)	108	14.8	45	0	2,333
All districts		978	21.3	153	0	25,118

The difference in excess tax component funding between small and large districts is primarily explained by excess local property taxes. Small districts are more likely to have excess local property taxes, while large and unified districts are more likely to have the other revenues included in the excess tax component, particularly revenues from mineral wealth. These other sources provide much less revenue per pupil, on average, than excess local property taxes. In 2005–2006 excess local property taxes totaled \$265 million, while the other sources contributed less than \$3.5 million.

In 2005–2006, there were 79 districts with excess local property taxes. These districts serve approximately 160,000 students, less than 3 percent of all ADA. Excess local property taxes average \$1,656 per ADA (Table 9). There is large variation in the amount of excess local property taxes per ADA. As with other components, the means are typically higher in small districts compared to medium and large districts.

TABLE 9
Excess local property taxes by district type and size, 2005–2006

Type and size of district		Number of districts	Percent of districts with adjustment (%)	Mean excess local property taxes (\$/ADA)	Interquartile range (\$/ADA)	Range (\$/ADA)
Elementary	Small (0–250 ADA)	191	12.6	5,437	3,727	24,787
	Medium (251–1,500 ADA)	182	8.2	2,494	2,521	11,603
	Large (1,501+ ADA)	184	7.1	903	1,362	3,447
High school	Small (0–1,500 ADA)	26	11.5	1,529	143	4,850
	Medium (1,501–6,000 ADA)	29	13.8	2,601	815	1,540
	Large (6,001+ ADA)	31	9.7	1,628	2,187	2,187
Unified	Small (0–3,000 ADA)	129	9.3	4,091	2,876	9,182
	Medium (3,001–10,000 ADA)	98	2.0	1,165	784	784
	Large (10,001+ ADA)	108	2.8	1,175	773	1,978
All districts		978	8.1	1,656	1,978	25,117

Excess local property taxes are often seen as an unfair boon to the few districts that have them. However, the receipt and magnitude of excess local property taxes varies annually and is often beyond the district’s control. The number of excess tax districts increased to 90 in 2007–2008 as property tax receipts increased. However, many districts may become excess tax districts without any revenue increases over the prior year. This occurs if the district’s revenue limit entitlement decreases, most commonly either from declining enrollment or a large deficit factor. Since 2007–2008, several districts became excess tax districts despite little growth, and in some cases actual declines, in property tax revenues.

Effect of Component Elements on District Funding

The previous section defined seven components of revenue limit funds and discussed how each component varies among districts. This section compares the components and explains the contribution of each to the overall variation in revenue limit funds per ADA.

The differences in base revenue limits discussed in the previous section are reflected quite clearly in the differences in revenue limit funds per ADA. Just as small districts in any of the three types of districts (elementary, high school, and unified) have higher base revenue limits than large districts in the same type of district, so too do small districts have higher revenue limit funds per ADA than large districts. And just as high school districts have higher base revenue limits than elementary and unified districts, so too do high school districts have larger revenue limit funds per ADA. The other six components of revenue limit funds per ADA do not alter the significant differences in base revenue limits.

In fact, the addition of the six components tends to accentuate trends already evident in base revenue limits. In particular, small districts receive more revenue per pupil from these six components than medium and large districts. For example, small elementary districts have an average base revenue limit of \$5,199 per ADA and mean revenue limit funds of \$6,227 per ADA—an increase of \$1,028 per ADA due to the six components (Table 10). In contrast, for medium and large elementary districts, the six components contribute to an average increase of \$410 and \$141 per ADA, respectively. The same pattern is evident for high school and unified districts.

Moreover, the additional six components also contribute to considerable variation *within* groups. For example, in the case of large unified districts, the interquartile range for the base revenue limit is \$38 per ADA, but the range increases to \$147 per ADA when it comes to the full revenue limit funds (see Table 10). The same pattern holds for every other group of districts. The increase in variation is particularly large for small districts.

TABLE 10
Revenue limit funds per ADA by district type and size, 2005–2006

Type and size of district		Number of districts	Mean base revenue limit (\$/ADA)	Interquartile range (\$/ADA)	Mean other six components (\$/ADA)	Mean revenue limit funds (\$/ADA)	Interquartile range (\$/ADA)
Elementary	Small (0–250 ADA)	191	5,199	456	1,028	6,227	1,086
	Medium (251–1,500 ADA)	182	4,949	60	410	5,359	296
	Large (1,501+ ADA)	184	4,932	40	141	5,073	170
High school	Small (0–1,500 ADA)	26	6,067	157	1,614	7,681	1,351
	Medium (1,501–6,000 ADA)	29	5,922	70	410	6,332	199
	Large (6,001+ ADA)	31	5,928	63	149	6,077	98
Unified	Small (0–3,000 ADA)	129	5,340	336	668	6,008	728
	Medium (3,001–10,000 ADA)	98	5,175	67	96	5,271	167
	Large (10,001+ ADA)	108	5,136	38	120	5,256	147
All districts		978	5,183	64	158	5,341	193

The contribution of each component to the variation in revenue limit funds per ADA can be conveniently analyzed using a statistical concept referred to as the variance. Roughly speaking, the variance of revenue

limit funds per ADA measures the difference between each district’s funding and the mean funding for all districts. Its interpretation is similar to that of the range; a large variance means that there is a large amount of variation in funding across districts. The variance of a total, such as revenue limit funds per ADA, can be expressed as the sum of the variance of the components of that total, in this case the base revenue limit and the other six components. The sum of the component variances may not always be precisely equal to the variance of the total because some components may be related. However, in this study, the correlation among components is not large, and the variance of the revenue limit funds per ADA is close to the sum of the variances of the components.²⁴

For most district categories, the variance in total revenue limit funds per ADA is primarily explained by the variance in excess taxes. For example, in the case of medium unified districts, 47.9 percent of the variance in revenue limit funds per ADA is due to excess taxes (Table 11). The percentage is even larger for other district categories. The only exception is small high school districts, in which 92.1 percent is explained by the component “All Other Adjustments.” This exception is due to Taft Union High’s Meals for Needy Pupil adjustment of roughly \$22,000 per pupil.

TABLE 11
Percent of total variance due to each component by district type and size, 2005–2006

Type and size of district		Number of districts	Base revenue limit	Declining ADA	NSS	Locally funded charters	UI	All other	Excess taxes
Elementary	Small (0–250 ADA)	191	3.7	1.8	10.1	0.0	0.0	0.6	78.2
	Medium (251–1,500 ADA)	182	1.4	2.5	0.1	0.3	0.0	0.5	93.2
	Large (1,501+ ADA)	184	20.0	7.7	0.0	3.1	0.0	9.5	74.0
High school	Small (0–1,500 ADA)	26	0.3	0.1	0.1	0.0	0.0	92.1	1.7
	Medium (1,501–6,000 ADA)	29	0.3	0.7	0.0	0.0	0.0	0.4	100.1
	Large (6,001+ ADA)	31	2.0	0.4	0.0	0.0	0.0	2.8	82.9
Unified	Small (0–3,000 ADA)	129	4.5	1.1	15.6	0.0	0.0	1.4	79.0
	Medium (3,001–10,000 ADA)	98	41.5	7.7	0.0	0.1	0.0	1.6	47.9
	Large (10,001+ ADA)	108	21.6	10.7	0.0	0.1	0.0	1.8	52.8
All districts		978	22.6	1.9	3.7	0.2	0.0	21.3	41.0

For certain types of districts, the variation in base revenue limits is the second most important explanation for overall funding variation (after “excess taxes”). Differences in base revenue limits explain 41.5 percent of the overall variation for medium unified districts, and around 20 percent of large elementary and large unified districts (see Table 11). As Table 1 revealed, these are also the district categories in which variation in revenue limit funds per ADA is very small. Because 85 percent of all students attend schools in these three types of districts, the relatively uncontroversial equalization of base revenue limits could reduce overall inequality considerably. However, this change would only address the equity of revenues within these district groupings and not the equity of revenue across different district types and size. That variation is explored in the next section.

²⁴ Variance has been simplified for this paper. Variance of n districts Y_1 to Y_n is: $\frac{\sum(Y_i - \bar{Y})^2}{n-1}$, which is the sum of the squared differences between a district and the mean of districts divided by the total number of districts minus one. Total variance is equal to the sum of component variances and twice the covariance of components. The covariance between the components for each district size-type is relatively small, which is why it’s excluded from Table 11. However, the exclusion of covariance explains why the rows in Table 11 do not sum to 100 percent.

California's Equalization Policies

The previous sections focused on explaining revenue limit funds per ADA as the sum of seven components and analyzing the variation in funding per student. As those sections demonstrated, revenue limit funds per ADA vary considerably across California's school districts. And despite the state's history of trying to equalize this funding, differences in per-pupil revenues persist. This section further explores California's equalization policies and the effect of an alternative base funding system on per-pupil revenue equity.

California has provided equalization funding twice in this decade, first in 2003–2004 and again in 2006–2007. Those equalization payments were computed according to existing statute based on a 90th percentile target. The 90th percentile target is determined by first assigning districts to one of six categories based on its type and size. These categories are small elementary (less than or equal to 101 ADA), large elementary (more than 101 ADA), small high school (less than or equal to 301 ADA), large high school (more than 301 ADA), small unified (less than or equal to 1,501 ADA), and large unified (more than 1,501 ADA).²⁵ The state then determines the base revenue limit for the student at the 90th percentile of funding for each district category. For each district below the target in its category, the state provides equalization aid equal to the difference between its current base revenue limit and the target. Often, however, the state cannot afford to provide full equalization aid in one year. In these cases, every district's equalization aid is prorated by a certain percentage. For example, fully equalizing base revenue limits under the 90th percentile target formula would have required \$477 million in 2006–2007. However, the legislature only appropriated \$350 million. Districts still received equalization aid; however, that aid was 27 percent less than what was required to reach the 90th percentile target.

Over 82 percent of all districts, serving 90 percent of all students, received some equalization aid in 2006–2007.²⁶ The average equalization aid was \$68 per student; the maximum equalization aid was \$842 per ADA (Table 12). As expected, the means and ranges are larger for small districts within each district type. Because small districts have the highest average base revenue and greatest variation, low-revenue small districts require larger equalization aid payments to reach the 90th percentile target. As discussed in previous sections of this report, there is less variation in base revenue limits for large districts, particularly large elementary and unified districts. Thus, it requires smaller per student increments to bring these districts to the 90th percentile of funding. This trend is best explained by comparing Monte Rio Union and Redwood City elementary districts. Both districts have base revenue limits of approximately \$4,910 per ADA. This base revenue limit is within \$200 per ADA of the minimum base revenue limit for each district's size-type category. However, Monte Rio Union received \$841 per ADA in equalization aid compared to Redwood City's \$44 per ADA. This large difference in equalization aid per ADA is due to the size of each district. Monte Rio Union serves fewer than 100 students, so its 90th percentile target is close to \$6,000 per ADA. The 90th percentile target for Redwood City and all elementary districts larger than 100 students is approximately \$5,000 per ADA.

²⁵ *Education Code* 42238.44. As discussed above, these district categories are not the ones used in this paper.

²⁶ Equalization aid data for 2003–2004 are no longer publicly available on CDE's website, and, therefore, excluded from this analysis.

TABLE 12
Equalization aid by district type and size, 2006–2007

Type and size of district		Number of districts	Percent of districts with equalization (%)	Mean equalization aid 2006–2007 (\$/ADA)	Interquartile range (\$/ADA)	Range (\$/ADA)
Elementary	Small (0–250 ADA)	186	78.0	112	48	841
	Medium (251–1,500 ADA)	186	85.5	54	27	126
	Large (1,501+ ADA)	185	88.6	56	21	94
High school	Small (0–1,500 ADA)	29	65.5	63	57	106
	Medium (1,501–6,000 ADA)	29	96.6	69	42	107
	Large (6,001+ ADA)	28	100.0	68	29	108
Unified	Small (0–3,000 ADA)	112	80.4	88	38	794
	Medium (3,001–10,000 ADA)	112	70.5	71	30	89
	Large (10,001+ ADA)	111	84.7	70	26	111
All districts		978	82.4	68	24	842

As noted above, the state’s equalization policy focuses on reducing inequalities in funding within six district categories, largely ignoring the differences in funding across these categories even though districts in different categories may serve similar types of students. For example, the average high school student in the state is funded at \$5,383 per ADA (Table 13). Over 70 percent of high school students attend schools in unified districts, while the remaining 30 percent are in high school districts. Unified districts on average receive \$5,155 for each high school student. High school districts, which have higher base revenue limits on average, receive \$5,937 per student. The difference between the highest and lowest funded high school student is \$2,250 per ADA, the range reported in Table 13.

TABLE 13
Base revenue limit by grade band, 2005–2006

Grade band	Number of districts serving grade band	Percent statewide enrollment (%)	Charter school block grant rate (\$/ADA)	Mean base revenue limit (\$/ADA)	Interquartile range (\$/ADA)	Range (\$/ADA)
K–3	893	30.2	4,970	5,085	174	3,871
4–6	895	23.4	5,040	5,085	173	3,871
7–8	837	15.7	5,182	5,144	65	3,806
9–12	434	30.6	6,019	5,383	772	2,250
All students	978	100.0	5,246	5,186	63	3,871

To address these equity concerns, the Governor’s Committee on Education Excellence (2007) proposes replacing revenue limits with a base funding formula similar to the charter school block grant. Under this base funding alternative, different grade bands are funded at different funding rates. High school students are more expensive to educate, and thus they would receive the highest funding rate: \$6,019 per ADA. The base funding alternative would also provide the same revenue for students in the same grade in every district, fully equalizing base revenues per ADA across districts.

Table 14 summarizes the effect of replacing revenue limits with the charter school block grant rates for each grade band. The simulation includes a hold harmless clause. For each grade band, if a district’s base revenue limit is larger than the charter school block grant rate, the district retains its base revenue limit. Under the base funding alternative, each grade level’s mean base funding increases. The most dramatic increase occurs for high school students; the mean funding rises to \$6,023 per ADA, an increase of \$640 per ADA.

TABLE 14
Base funding alternative using 2005–2006 rates by grade band

Grade band	Number of districts serving grade band	Percent statewide enrollment (%)	Charter school block grant rate (\$/ADA)	Base alternative (\$/ADA)	Interquartile range (\$/ADA)	Range (\$/ADA)
K–3	893	30	4,970	5,103	163	3,621
4–6	895	23	5,040	5,122	93	3,551
7–8	837	16	5,182	5,248	0	3,409
9–12	434	31	6,019	6,023	0	1,094
All students	978	100	5,246	5,674	196	4,203

NOTE: Grade level revenue held harmless to base revenue limit.

The base funding alternative also reduces the variation in funding in each grade band. For grades 7–12, the interquartile range drops to \$0 per ADA, meaning that at least 50 percent of students in these grades are funded at the same rate. If districts were not held harmless, there would be no variation in funding within the grade bands.

The total estimated additional revenue necessary to implement the base funding alternative ranges between \$14.8 million and \$1.3 billion. The cost varies depending on the treatment of excess taxes and the method by which districts are held harmless. The simulation shown in Table 14 represents the most costly reform by allowing excess tax districts to retain those revenues and ensuring that every district receives at least the charter school block grant rate for each grade level. A more modest approach, costing approximately \$525 million, would ensure that districts’ revenue limit funding (total dollars) is at least as much as they would receive using the charter school block grant funding formula. The state would save money (\$14.8 million) if districts were only entitled to funding generated using the charter school block grant formula and no district was allowed to retain excess taxes. In this scenario, some districts would lose funding. More information about the simulations and each district’s new funding under the base funding alternative are available in the [technical appendices](#).

While there appear to be benefits to using the charter school block grant rates as a base funding alternative, it is important to note that the rates themselves are based on the average revenue limit funding of different types of districts. There is no evidence that the charter school block grant rates reflect the true costs of educating students in those grade bands. In that sense, the calculations presented in this paper represent the effect of bringing the funding of all districts up to the statewide average by grade band, rather than the cost of meeting the different needs of students in different grade bands. It is an estimate of the cost of equity as defined by various school finance reform proposals.

Reforming the Revenue Limit System

To many in the policy and research communities, the revenue limit entitlement is so entrenched in historical factors that a complete overhaul is necessary.²⁷ As this review has shown, there are significant differences in revenue limit funds per student, resulting in an inequitable distribution of funding. Adjusting revenue limit allocations, by giving all districts at least as much as they would receive using the charter school block grant formula, would benefit the majority of the state’s students. Another key issue—discussed below—is reforming the complex system of revenue limit adjustments, which would benefit from simplification. Finally, the state should consider how to transition its funding system as the economy recovers and school revenues improve.

Simplifying Revenue Limit Adjustments

This review of the revenue limit entitlement found 16 adjustments to determine state aid. On average, the effect of these 16 revenue limit adjustments is small, adding just 1 percent to total base revenue limits. With the exception of the necessary small school adjustment, the revenue limit adjustments tend to cancel each other, adding just \$34 per ADA to base revenue limits, on average. Although there are a few outliers, these sources of revenue also tend to evenly distribute revenue across all districts, irrespective of district type and size. Because the magnitude of funding from these adjustments on average is small and there is comparatively little variation in funding, it makes sense to consolidate most revenue limit adjustments. While there may have been clear rationale for the conception of each revenue limit adjustment, as the Governor’s Committee on Education Excellence points out, those reasons may no longer be relevant.²⁸ Consolidation may also reduce the state and local administrative costs of annually calculating each district’s 16 revenue limit adjustments.²⁹ Citing these reasons, recent legislation took a step towards simplifying the revenue limit entitlement calculation by consolidating four revenue limit adjustments into two.³⁰

Two features of the revenue limit entitlement, however, may be worth preserving: protections for declining enrollment and adjustments for rural schools. There are also questions about whether a third component—excess taxes—should be maintained.

Protections for Declining Enrollment

To provide a buffer against declining revenues, districts are currently protected for one year from declining enrollment. None of the school finance reform proposals address the issue of declining enrollment in the

²⁷ Governor’s Committee on Education Excellence (2007).

²⁸ *Ibid.*

²⁹ Citing Senate and Assembly Appropriations Committee analyses of AB 599 (Mullin, 2008), the Assembly Education Committee analysis points to reduced state and local administrative costs as a result of some revenue limit adjustment consolidations. See Assembly Education Committee (2009).

³⁰ AB 851 (Chapter 374, Statutes of 2009) consolidates Meals for Needy Pupils and the Beginning Teachers Salaries incentive program into a fixed per-pupil rate. It also consolidates funding for inter-district transfers and Orange County bankruptcy proceedings into a separate fixed per-pupil adjustment. See Assembly Education Committee (2009) analysis of AB 851 for the author’s justifications for revenue limit adjustment consolidation.

base funding formula.³¹ Yet, over half of California’s districts are facing declining enrollment. And demographic projections predict almost no growth in statewide enrollment,³² meaning that the declining enrollment adjustment will continue to be an important issue, particularly if charter school enrollment continues to grow.³³

Adjustments for Rural Schools

The revenue limit entitlement also adjusts funding for rural schools. Small, isolated schools and districts currently receive funding through the necessary small school formula. This formula typically provides more revenue than the base revenue limit by using staffing needs as the primary determinant of funding. Further study of the necessary small school formula and its criteria is needed to determine whether it is the most efficient method of financing these schools. The current criteria create a disincentive to consolidate schools to achieve economies of scale. Similarly, the criteria and formula do not address advances in technology, such as online classes, that may prove effective in addressing the needs of rural districts. Other states, such as New York, use alternative methods to identify small schools in need of additional funding. New York annually calculates a sparsity count, based on each district’s population density.³⁴ Each district’s state aid is then adjusted by its sparsity count. This is one option for California to explore, which might also hold relevance for other small or rural districts with similar needs that do not meet the necessary small school criteria.

Excess Taxes and Funding Inequities

Whether the excess taxes component of revenue limit funds should be maintained is debatable. As noted in this report, the majority of variation in revenue limit funds per ADA is explained by excess taxes. Districts with high assessed property values receive much higher revenues per pupil than other districts. Excess local property taxes provided an additional \$265 million to 79 districts in 2005–2006. This is approximately the same level of funding as that provided to districts to fund professional development programs for teachers, but it is far less equally distributed on a per-ADA basis. Excess property taxes per ADA provide on average 30 percent more revenues than the revenue limit entitlement per ADA, but less than 3 percent of all students are in districts with excess property taxes. Were they distributed equally on a per-pupil basis, each district would receive \$46 per student, approximately the mean per-pupil funding for professional development.³⁵ Excess taxes are excluded from equalization aid calculations and, clearly, the state cannot afford to provide enough state aid to bring all students to the level of the highest funded student.

One way to address the inequities in per-pupil funding is to redistribute excess local property taxes, rather than allowing excess tax districts to retain the surplus revenue. Excess local property taxes, which totaled \$265 million in 2005–2006, could be allocated to low-revenue districts to ensure that all districts are funded at a minimum level per student. This would decrease the variation in funding per student that currently exists.

³¹ The Governor’s Committee on Education Excellence proposes a funding formula similar to the charter school block grant. Charter schools receive no declining enrollment protection. If enrollment does decline from the prior year, charter schools lose base funding for every lost unit of ADA, while regular district schools lose no funding.

³² Legislative Analyst’s Office (2009).

³³ In 2000–2001, California had 299 charter schools, serving less than 2 percent of all students. In 2008–2009, approximately 4.5 percent of all students were enrolled in 746 charter schools (www.ed-data.k12.us). Approximately 83 percent of new charter schools since 2005–2006 are direct funded, resulting in a real loss of funding for districts (own analysis of the principal apportionment summary). Every new unit of charter ADA is a lost unit of district ADA and is counted in the declining enrollment adjustment for districts.

³⁴ New York State Education Department (2009).

³⁵ The professional development block grant totaled \$249 million in 2005–2006. The mean per-pupil funding was \$42 per ADA compared to \$46 per ADA in excess local property taxes.

While this is politically controversial, it is not impossible. In 1976, the California Supreme Court found that the revenue limit system failed to resolve the equity issues from *Serrano* because it perpetuated the inequities in per-pupil funding that existed in 1972–1973. Thus, California’s school finance system remained unconstitutional. The Court proposed several remedies, one of which was enacted by the California Legislature the following year. Assembly Bill 65 (Chapter 896, Statutes of 1977) increased revenue limits and employed a district power equalizing system. Under AB 65, a district was entitled to a unique funding level. If a district failed to generate enough property tax revenue, the state provided enough aid to reach the district’s funding level. The state aid was funded by the excess property taxes of high-wealth districts. Unlike California’s current system, where districts keep excess local property taxes, under AB 65 the state would collect excess local property taxes and redistribute those revenues to low-wealth districts. This policy was never implemented because of the passage of Proposition 13,³⁶ and thus the inequities present in 1976 persist.³⁷

While there is legal precedence for redistributing excess taxes to equalize base revenue limits, it may not be the best allocation of excess taxes or the best way to finance revenue limit equalization. Some argue that other local governments should be allowed to retain the excess taxes to offset past shifts in property tax allocations toward schools and away from local governments. In the 1990s, the state twice changed the property tax allocation system to provide larger property tax revenues to school districts in order to reduce the amount of revenue limit entitlement state aid.³⁸ Although the state has provided some funding to local governments to mitigate these shifts from local governments to schools, most notably in 2004–2005, the League of California Cities estimates that these shifts cost local governments several billion dollars annually.³⁹

Moving Toward Equitable Revenue Limit Funding

Over the past forty years, California has adopted many equalization formulas for various revenues. Revenue limit equalization has reduced differences in per-pupil revenues, yet large differences still exist between districts of different types and size. Over the past decade, revenue limit equalization may have exacerbated these differences by allocating aid based on a district’s relative position within its district category, based on its type and size. This type of equalization has produced an inequitable system where districts receive widely varying rates for educating similar types of students. The most dramatic example is the difference in funding for high school students enrolled in high school districts and unified districts. High school districts receive, on average, \$781 more per high school student than unified districts. Although there may be legitimate reasons for differences in per-pupil funding, such as adjustments for population density or regional wage costs, research has found that California’s system currently lacks any such rationale.⁴⁰ In response to this inequity, the Governor’s Committee on Education Excellence has proposed an alternative funding formula whereby revenue limit funding is determined not by district type and size, but rather by the grade levels served by a district. This type of funding formula would provide a more equitable distribution of revenues.

³⁶ Proposition 13 preempted AB 65’s implementation. The proposition eliminated local overrides on property tax rates, which were to have financed AB 65’s power-equalization. See Sonstelie, Brunner, and Ardon (2000).

³⁷ Although SB 727 (Chapter 855, Statutes of 1997) rebenchmarked every district’s base revenue limit based on its excused absence rate, the statewide patterns by district type and size were, on average, not affected by SB 727. Rather, variation slightly increased within type and size categories. See Legislative Analyst’s Office (1999) and Assembly Budget Subcommittee on Education Finance (1999).

³⁸ Legislative Analyst’s Office (2006).

³⁹ League of California Cities (2009).

⁴⁰ Governor’s Committee on Education Excellence (2007); Loeb, Bryk, Hanushek (2007); Reich (2007).

In recent years, California school districts have faced severe budget cuts as a result of the faltering state economy. Those cuts have generally targeted revenue limits: Current funding is at least 18 percent below the levels required by statute.⁴¹ It is likely that revenue limit funding per ADA for 2010–2011 will be even lower than the funding districts received in 2005–2006.⁴² Although the current situation is dire, per-pupil funding will eventually increase (although it is difficult to predict when this will occur).⁴³ California needs to plan now for how to allocate future increases in funding.

The state has two options for replacing its previous cuts in revenue limit funding. Those cuts were equally distributed: Every district's entitlement was reduced by the same percentage, and excess tax districts received commensurate cuts in other programs. One option for future funding would be to simply restore each district's funding to its prior level. Alternatively, the state could "equalize" revenue limits by restoring cuts unequally, providing more funds to lower revenue districts.⁴⁴ Similar equalization practices were implemented following the passage of Proposition 13 in 1978 through 1983.⁴⁵

California's school districts and students would benefit from a more equitable distribution of revenue limits, which are their single largest source of revenue. In particular, equitable revenue limit funding would benefit unified districts, which serve over 70 percent of California's students. However, in moving towards this goal, the state must also ensure that the level of funding is sufficient and addresses the diverse needs of California's students. Recent adequacy studies⁴⁶ in the Getting Down to Facts project estimate that the state must invest significantly more to ensure that all students meet California's high standards of achievement. This may mean moving beyond the goal of revenue limit equity toward a system that targets significant additional funds toward districts whose students need extra resources to succeed.

⁴¹ ABX4 2 (Chapter 2, Statutes of 2009) established a deficit factor of 18.355 percent for 2009–2010.

⁴²Based on Governor's proposed budget with a 0.38 percent COLA, 18.355 percent deficit factor, and \$1.2 ongoing cut to revenue limits. See California Department of Finance (2010) and School Services of California, Inc. (2010). The estimated 2010–2011 average base revenue limit is 2 percent lower than the average deficated base revenue limit from 2005–2006.

⁴³ Both the Legislative Analyst's Office (2009) and the California Department of Finance (2009) project future increases under Proposition 98. Similarly, the state owes schools \$11.2 billion in repayment for the large reduction in education funding. The repayment schedule depends on growth in the state's general fund revenues.

⁴⁴ An upcoming PPIC project will focus on the trade-offs between restoration and equalization and the incremental steps California can take each year to achieve equity in per-pupil funding.

⁴⁵ Following Proposition 13, the state cut the revenue limit entitlements of all districts. High-revenue districts received larger cuts than low-revenue districts. See Sonstelie, Brunner, and Ardon (2000). Prior to 1983, the state provided higher inflation adjustments to low-revenue districts and lower inflation adjustments to high-revenue districts. A Legislative Analyst's Office report (1999) outlines various sliding-scale COLA options, estimating the length of time to achieve full equalization and the total cost of each option.

⁴⁶ Chambers, Levin, and DeLancy (2007); Duncombe and Yinger (2007); Imazeki (2007); Sonstelie (2007).

Glossary

AB	Assembly Bill
ADA	Average Daily Attendance: Total days of student attendance divided by total days of instruction. See the technical appendices for more information on the measure used in this paper.
BAC	Basic Aid Choice (Court-Ordered Voluntary Pupil Transfer): Compensates excess tax districts for nonresident students enrolled in regular district schools.
BAS	Basic Aid Supplement (Charter School Adjustment): Compensates excess tax districts for nonresident students enrolled in charter schools.
Base revenue limit	Unique funding amount per pupil, based on a district’s 1972–1973 per-pupil expenditures.
BTS	Beginning Teacher Salary incentive funding adjustment. See Table A1 in the technical appendices .
CDE	California Department of Education, the state agency that oversees K–12 education.
COE	County Office of Education
COLA	Cost of Living Adjustment: An increase in funding due to inflation, based on the implicit price deflator for state and local government purchases of goods and services.
COT	County Office Transfer. Students funded through revenue limits, but who attend special classes at COEs. Districts transfer revenue limit funding to COEs for these students.
Excess tax	Property tax revenue in excess of a district’s revenue limit entitlement. In this paper, excess taxes also include royalties from mineral wealth and basic aid supplements for charter schools (BAS).
LCI	Licensed Children’s Institution. Students with severe disabilities may be enrolled in these types of institutions should the district or COE be unable to support the educational or health needs of the student.
Mean	The average of a numerical set, derived by dividing the sum of a set of numbers by the number of members in the set. In this paper, it is the sum of all funding divided by the number of students within nine district categories based on size and type.
MNP	Meals for Needy Pupils adjustment. See Table A1 in the technical appendices .
NPS	Nonpublic School. Students with severe disabilities may be enrolled in these types of institutions should the district or COE be unable to support the educational or health needs of the student.
NSS	Necessary Small School funding formula: An alternative entitlement calculation for very small and isolated schools. See <i>Education Code 42280</i> for more information.
PERS	Public Employees Retirement System. See Table A1 in the technical appendices .

Revenue limit adjustment	An addition or subtraction of funding, in total dollars, to the total base revenue limit. The revenue limit entitlement calculation includes more than a dozen revenue limit adjustments.
Revenue limit entitlement	A unique total dollar amount for each district. It is the sum of the total base revenue limit and all revenue limit adjustments. The entitlement is funded by local property tax revenue and state aid.
Revenue limit funds	A unique total dollar amount for each school district. In most cases, it equals the revenue limit entitlement. For districts with excess taxes, it includes these excess taxes. A few other sources of general purpose revenue are also included. See Table A2 in the technical appendices for more information.
SB	Senate Bill
Total base revenue limit	The product of a district's base revenue limit and its ADA.
UI	Unemployment Insurance adjustment.

References

- Assembly Budget Committee, Subcommittee No. 2 on Education Finance. 1999. Agenda, March 2 hearing. Available at www.assembly.ca.gov/acs/subcommittee.asp?subcommittee=2.
- Assembly Education Committee. 2009. "Bill Analysis, AB 851." April 1 hearing. Available at www.leginfo.ca.gov/pub/09-10/bill/asm/ab_0851-0900/ab_851_cfa_20090331_120036_asm_comm.html.
- Bersin, Alan, Michael W. Kirst, and Goodwin Liu. 2008. *Getting beyond the Facts: Reforming California School Finance*. Issue Brief. Chief Justice Earl Warren Institute on Race, Ethnicity, and Diversity, University of California, Berkeley Law School. Available at www.law.berkeley.edu/files/GBTFissuebriefFINAL.pdf.
- California Department of Finance. 2010. "K–12 Education." Budget detail, *Governor's Budget 2010–11*. Available at www.dof.ca.gov/budget/historical/2010-11/governors.
- California Department of Finance. 2009. "General Fund Projection at Amended 2009 Budget Act." Available at www.dof.ca.gov/reports_and_periodicals/documents/Multi-Year_General_Fund_Projection-2009_Budget_Act.pdf.
- California Employment Development Department. 2008. "Claims Management Handbook for School Employers." Available at www.edd.ca.gov/pdf_pub_ctr/de3450sef.pdf.
- Chambers, Jay, Jesse Levin, and Danielle DeLancey. 2007. *Efficiency and Adequacy in California School Finance: A Professional Judgment Approach*. American Institutes for Research. Available at www.air.org/publications/documents/AIR%20PJP%20Report.pdf.
- Duncombe, William, and John Yinger. 2007. "Understanding the Incentives in California's Education Finance System." Getting Down to Facts project, Institute for Research on Education Policy and Practice, Stanford University. Available at www.stanford.edu/group/irepp/cgi-bin/joomla/a-research-project-examining-california-s-school-governance-and-finance-systems.html.
- Goldfinger, Paul M., and Bob Blattner. 2005. *Revenues and Revenue Limits*. Sacramento: School Services of California, Inc.
- Goldfinger, Paul M., and Janelle Kubinec. 2008. *Revenues and Revenue Limits*. Sacramento: School Services of California, Inc.
- Governor's Committee on Education Excellence. 2007. *Students First: Renewing Hope for California's Future*. Technical Report. Available at www.everychildprepared.org/docs/00cover.pdf.
- Imazeki, Jennifer. 2007. "Assessing the Costs of K–12 Education in California Public Schools." Getting Down to Facts project, Institute for Research on Education Policy and Practice, Stanford University. Available at www.stanford.edu/group/irepp/cgi-bin/joomla/a-research-project-examining-california-s-school-governance-and-finance-systems.html.
- Kemerer, Frank, and Peter Sansom. 2009. *California School Law*, 2nd ed. Stanford, CA: Stanford University Press.
- League of California Cities. 2009. "Fact Sheet: the ERAF Property Tax Shift." Available at www.californiacityfinance.com/ERAFfacts.pdf.
- Legislative Analyst's Office. 2006. "Analysis of the 2006–07 Budget Bill: Education." Available at www.lao.ca.gov/analysis_2006/education/ed_02_anl06.html.
- Legislative Analyst's Office. 2009. "California's Fiscal Outlook: Proposition 98 Briefing." Hearing Handout. Available at www.lao.ca.gov/laoapp/PubDetails.aspx?id=2147.
- Legislative Analyst's Office. 1999. "Equalizing School District Funding: Option for a Sliding Scale COLA." Available at www.lao.ca.gov/1999/0499_sliding_scale/0499_sliding_scale.html.
- Loeb, Susanna, Anthony Bryk, and Eric Hanushek. 2007. *Getting Down to Facts: School Finance and Governance in California*. Institute for Research on Education Policy and Practice, Stanford University. Available at www.stanford.edu/group/irepp/documents/GDF/GDF-Overview-Paper.pdf.
- New York State Education Department. 2009. "2009–10 State Aid Handbook." Available at stateaid.nysed.gov/publications/handbooks/handbook09.pdf.
- Reich, Robert. 2007. "Equality and Adequacy in the State's Provision of Education: Mapping the Conceptual Landscape." Getting Down to Facts project, Institute for Research on Education Policy and Practice, Stanford University. Available at [http://irepp.stanford.edu/documents/GDF/STUDIES/01-Reich/1-Reich\(3-07\).pdf](http://irepp.stanford.edu/documents/GDF/STUDIES/01-Reich/1-Reich(3-07).pdf).

- Reinhard, Ray, Heather Rose, Ria Sengupta, and Jon Sonstelie. 2008. "Funding Formulas for California Schools II: An Analysis of a Proposal by the Governor's Committee on Education Excellence." Occasional Paper, Public Policy Institute of California.
- Rose, Heather, Ria Sengupta, Jon Sonstelie, and Ray Reinhard. 2008. "Funding Formulas for California Schools: Simulations and Supporting Data." Occasional Paper, Public Policy Institute of California.
- School Services of California, Inc. 2010. "Governor's Proposals for the 2010–11 State Budget and K–12 Education." January 12 conference in Sacramento, California.
- Sonstelie, Jon. 2007. "Aligning School Finance with Academic Standards: A Weighted Student Formula Based on a Survey of Practitioners." Occasional Paper, Public Policy Institute of California, California.
- Sonstelie, Jon, Eric J. Brunner, and Kenneth Ardon. 2000. *For Better or For Worse? School Finance Reform in California*. San Francisco: Public Policy Institute of California.

About the Author

Margaret Weston is a research associate at the Public Policy Institute of California’s Sacramento Center, where her work focuses on K–12 school finance. Before joining PPIC, she taught high-school English and drama in Baltimore City Public Schools through Teach For America. She holds a master’s degree in teaching from Johns Hopkins University and a master of public policy degree from the University of Michigan.

Research publications reflect the views of the author and do not necessarily reflect the views of the staff, officers, or Board of Directors of the Public Policy Institute of California. All errors are my own.

Acknowledgments

PPIC’s work in school finance is guided by an advisory group consisting of Carol Bingham of the California Department of Education, Rachel Ehlers of the Legislative Analyst’s Office, and Nicolas Schweizer of the California Department of Finance. I am particularly indebted to Carol, who provided most of the data used in this paper. I am also deeply indebted to Sandra Silva who patiently explained to me the intricacies of California’s school finance system and to Jon Sonstelie, who helped in developing this paper and provided constructive comments and support throughout the writing process. I thank Carol Bingham, Gary Bjork, Ellen Hanak, Hans Johnson, Patrick Murphy, Lawrence Picus, Heather Rose, and Lynette Ubois for their valuable comments while reviewing a previous draft.

PUBLIC POLICY INSTITUTE OF CALIFORNIA

Board of Directors

Walter B. Hewlett, *Chair*

Director
Center for Computer Assisted Research
in the Humanities

Mark Baldassare

President and CEO
Public Policy Institute of California

Ruben Barrales

President and CEO
San Diego Chamber of Commerce

John E. Bryson

Retired Chairman and CEO
Edison International

Gary K. Hart

Former State Senator and Secretary
of Education
State of California

Robert M. Hertzberg

Partner
Mayer Brown LLP

Donna Lucas

Chief Executive Officer
Lucas Public Affairs

David Mas Masumoto

Author and farmer

Steven A. Merksamer

Senior Partner
Nielsen, Merksamer, Parrinello,
Mueller & Naylor, LLP

Constance L. Rice

Co-Director
The Advancement Project

Thomas C. Sutton

Retired Chairman and CEO
Pacific Life Insurance Company

Carol Whiteside

President Emeritus
Great Valley Center



PPIC

PUBLIC POLICY
INSTITUTE OF CALIFORNIA

The Public Policy Institute of California is dedicated to informing and improving public policy in California through independent, objective, nonpartisan research on major economic, social, and political issues. The institute's goal is to raise public awareness and to give elected representatives and other decisionmakers a more informed basis for developing policies and programs.

The institute's research focuses on the underlying forces shaping California's future, cutting across a wide range of public policy concerns, including economic development, education, environment and resources, governance, population, public finance, and social and health policy.

PPIC is a private operating foundation. It does not take or support positions on any ballot measures or on any local, state, or federal legislation, nor does it endorse, support, or oppose any political parties or candidates for public office. PPIC was established in 1994 with an endowment from William R. Hewlett.

Mark Baldassare is President and Chief Executive Officer of PPIC.

Walter B. Hewlett is Chair of the Board of Directors.

Short sections of text, not to exceed three paragraphs, may be quoted without written permission provided that full attribution is given to the source and the above copyright notice is included.

Research publications reflect the views of the authors and do not necessarily reflect the views of the staff, officers, or Board of Directors of the Public Policy Institute of California.

Copyright © 2010 Public Policy Institute of California

All rights reserved.

San Francisco, CA

PUBLIC POLICY INSTITUTE OF CALIFORNIA

500 Washington Street, Suite 600

San Francisco, California 94111

phone: 415.291.4400

fax: 415.291.4401

www.ppic.org

PPIC SACRAMENTO CENTER

Senator Office Building

1121 L Street, Suite 801

Sacramento, California 95814

phone: 916.440.1120

fax: 916.440.1121