FINANCING K-12 EDUCATION IN CALIFORNIA: A SYSTEM OVERVIEW

Thomas Timar
University of California, Davis

May 2006

I. The Context of California School Finance

Since the early 1970s, traditional patterns of school governance in California have changed dramatically. The presumption of local control, a system of governance based on local electoral accountability—the system in place for the previous 150 years—has been superseded by a system of state control. Decisions that used to be matters of local discretion---among them, decisions about resource allocation, curriculum, student assessment, and student promotion and graduation—are now matters of state policy.

Districts are now subject to voluminous state and federal regulations and reporting requirements. The state tells teachers how to teach reading and tells teachers and administrators how to behave with parents. Since enactment of the Public School Accountability Act (PSAA) in 1999, the state can take over "failing" schools and fire teachers and principals. As a result of governance changes over the past 35 years, there are few areas of teaching and learning that are not subject to legislative mandate.

While California's state constitution assigns responsibility for education to the state, the legislature has delegated much of that responsibility to local school districts.[1] Created as legal entities by the legislature, school districts were granted authority to levy taxes, enter into contracts, and enforce state law as it applied to operation of schools. Accountability for education was synonymous with local political accountability. School board members answered to local electorates. If a community was unhappy with its schools, it could elect a new board, which then might replace the existing school superintendent. The scope and quality of educational services was determined primarily by local preferences for education and local

capacity to pay for them.

Nowhere within the state's education policy arena are changes in state-local relations more starkly exemplified than in the financing K-12 public education. Until the late 1970s, local property tax revenues comprised the major share of school funding. The state's role in direct fiscal support to schools was a limited one. It guaranteed a funding floor for districts (as long as districts taxed themselves at a state-specified minimum level) and provided additional dollars for extraordinary costs—for transportation in rural areas, for instance. Local property taxes provided, on average, 60 percent of K-12 funding while the state provided 34 percent. Federal dollars made up the remaining 6 percent. Most importantly, nearly 90 percent of a district's revenues were general purpose or unrestricted, which meant that districts had a free hand in deciding how to allocate those funds.

The present school finance system is radically different. In 2004-052, on average, schools received 67 percent of their funding from the state, 22 percent from local sources, 9 percent from the federal government, and 2 percent from the state lottery (Figure 1). Moreover, of the 60 percent from the state, 40 percent is restricted, meaning that money must be used only for state-specified purposes. How much money districts have to spend each year is determined almost entirely by the legislature, not by the district. While districts do have authority to augment their revenues through parcel taxes, only a handful have succeeded in doing so. For all practical purposes, California has a state, centralized education finance system.

The transformation of the state's school finance system raises the obvious "so what"

---

[1] Delegates to the State Constitutional Convention in 1879 deliberately kept constitutional provisions weak so that the legislature could make modifications to the education system with changing needs and conditions. `

[2] 2004-05 is generally used in this paper as it is the most current year for which district-level data is available.

question. What difference does it make where the money comes from? What effect has centralization had on the on the capacity of the state's nearly 1000 school districts to provide educational services in their communities? It is not intuitively obvious to a layperson what difference the source of funding makes. After all, money is money.

In this paper, I propose that state centralization has made a difference in some important ways. Among them are the equity, rationality, transparency, efficiency, and adequacy of the existing finance system.

The purpose of this paper is three-fold: (1) to explain briefly the causes of the transformation from a local, decentralized system to a state, centralized system of school finance; (2) to describe the workings of the current system of funding; and (3) to assess the impact of these changes. The paper is organized into three sections: the first discusses the major policies over the past 35 years that shaped the current finance system; the second examines the structure of the finance system—the sources and distribution of state and local revenues. The third examines the effects of those changes and significant policy issues related to the school finance system.

A. Major Policy Events in California School Finance since the Early 1970s

Since the early 1970s a combination of court rulings, legislative enactments, and voter initiatives have fundamentally altered the system of school finance in California. This section of the paper discusses those initiatives and their impact.

Serrano I (1971) and *Serrano II* (1976).[3] The two *Serrano* rulings by the California State

[3] *Serrano v. Priest,* 5 Cal. 3rd 584 (1971) and *Serrano II* 18 Cal 3rd 728 (1976)

Supreme Court stated that school district revenues were so reliant on local property tax revenues that students in "low-wealth districts"—districts with low assessed valuation of property—were denied an equal educational opportunity in violation of the "Equal Protection" clause of the California Constitution. Inequality stemmed from huge differences in property values—measured in assessed value—across the state. Differences among a few selected districts in tax efforts, assessed valuation and yield are shown in Table 1.

TABLE 1

Table 1 shows the significant differences in tax effort and resulting expenditures per ADA. Baldwin Park, for example, had a tax rate of $5.48 per $1000 of assessed valuation, which produced $577 per ADA. Beverly Hills, on the other had, taxed itself at about half the rate, at $2.38 per $1000 of assessed valuation, yet generated $1,232 per ADA, over twice as much as Baldwin Park.[4] Districts like Emery benefited tremendously from having few students and a large stock of industrial property assessed at high rates. Disadvantaged districts were districts like Newark, suburbs with low property values and large numbers of students. While *Serrano I* found the existing school finance system to be unconstitutional, *Serrano II* required the state to reduce disparities among districts to an inflation-adjusted $100 per pupil band. The *Serrano II* decision did not mean that all revenues per pupil had to be equalized to within $100 across the state. Districts were allowed to tax themselves at higher rates so long as effort and yield were roughly the same. For example, if District A taxed itself at $5 and generated $2000 per pupil and

District B taxed itself at $2.50 and generated $1000 per pupil, it would be within the constitutional mandate of *Serrano*, since equal effort produced equal results.

Since passage of Proposition 13, this is no longer true. Proposition 13 imposed a one percent property tax rate and prohibited local increases in ad valorem taxes beyond the annual two percent allowed by Proposition 13.

Senate Bill 90 (Chapter 1406, *Statutes of 1972).* The legislature enacted this measure in response to the first *Serrano* decision. This bill established a system of revenue controls that limited a district's general purpose revenues. Each district's revenue limit was based on the state aid and local property taxes it received in 1972-73. Each year, districts' revenue limits would be adjusted for inflation. So called "high wealth" districts—Emery and Beverly Hills, for instance--would receive lower annual inflation adjustments while "low wealth" districts—like Newark and Baldwin Park—would receive higher inflation adjustments. Over time, this scheme meant to bring districts into parity. The strategy was known as the "squeeze formula." Critics at the time estimated that this method would take 40 years to achieve the level of equalization the court required.

While SB 90 was not a bold step toward revenue equalization, it was the first step in a process that reversed school finance policy in place since 1910 when the legislature assigned property taxes to local governments.

Proposition 13 was approved by voters in 1978. It added Article XIII A to the California Constitution. The measure rolled back property assessments to their 1975-1976 levels. It limited property tax increases based on the value of property to two percent annually. New

[4] Assessed value was not the same as market value. While assessments varied, assessed value was generally at 25 percent

construction or property sold after Proposition 13 is taxed at one percent of the market value. It prohibits additional increases in ad valorem taxes. Any new, non ad valorem levies required a 2/3 vote of the electorate.

Gann Limit. With Proposition 13, voters also approved Proposition 4 which came to be known as the "Gann Limit" (Article XIII B of the State Constitution) and required the state to reimburse local governments for all state mandated costs.

Assembly Bill 8 (Chapter 282, *Statutes of 1979* . The legislature's response to Proposition 13 was to cushion the impact of revenue losses from property taxes on districts by partially compensating the loss through state general revenues. While districts lost roughly 50 percent of the property tax revenues through Proposition 13, the state had a sizeable general fund revenue surplus to aid school districts and was able to limit actual revenue losses to districts to an average of 15 percent. This was intended only as a stop-gap measure, since the subsidy to local governments--the state's revenue surplus--would eventually be depleted. A "permanent" solution was devised in 1979 when the legislature shifted a large share of local property taxes to local governments and compensated school districts with additional state aid.

Proposition 98 (1988) and Proposition 111 (1990). Proposition 98 gave K-12 and community colleges (commonly referred to as K-14) a constitutionally protected share of the state budget. Its purpose was to provide schools and community colleges with a guaranteed funding source that grows with the economy and student enrollment from year to year.[5]

The funding provisions under Proposition 98 are determined by one of three "tests." The

---

of market value.

[5] Robert Manwaring. "Proposition 98 Primer." Legislative Analyst's Office. Sacramento, CA. February 2005. http://www.lao.ca.gov/2005/prop_98_primer/prop_98_primer_020805.pdf

third test was added by Proposition 111.

> *Test 1* provides K-12 and community colleges with at least the same percentage of state General Fund revenues as in 1986-87. At the time this was roughly 40 percent.
>
> *Test 2* provides that K-14 receives at least the same amount of combined state aid and property tax revenues as in the previous year adjusted for state-wide ADA growth and an inflation factor equal to the annual change in per capita personal income.
>
> *Test 3* is generally the same as Test 2, but uses a different inflation factor—one that is equal to the annual percentage change in per capita state General Fund tax revenues plus ½% if that inflation factor is lower than the Test 2 inflation factor.

The intent of the three tests is to guarantee a predictable share of state revenues for schools under various economic conditions. Test 1 ensures that state aid for K-14 grows proportionately with state tax receipts during years of robust revenue growth. Essentially, Test 1 requires the state to provide K-14 education at least 39 percent of the General Fund tax revenues. As LAO points out, however, this test was operative only in the first year of Proposition 98 and is not likely to be operative any time in the near future.[6] Test 2 ensures that, at a minimum, state and local funding keep pace with ADA growth and economic growth. Test 3, created by Proposition 111 in 1990, increases prior-year funding by growth in attendance and per capita General Fund revenues. This test still connects K-14 funding to changes in economic growth, but only in years when state tax growth lags behind personal income growth. The legislature added Test 3B, which requires the growth of funding per ADA to be at least as great as the growth in all other state-funded programs on a per capita basis. It's purpose is to protect health and social services from draconian cuts in low-revenue years.

Another feature of Proposition 98 is what is known as the "Maintenance Factor." This refers to the funding gap that occurs when K-14 received less funding (because of suspension of Proposition 98 or application of Test 3) than the growth in the economy. When this occurs, Proposition 13 contains a provision that accelerates funding in future years to compensate for the funding gap.

Table 2 shows the operative tests since 1989-90. As the data show, Test 2 applies in years when state general fund revenues are robust, while Test 3 has applied when general fund revenues declined from the previous year or grew slowly.

TABLE 2

II. The Structure of California School Finance

While Proposition 98 determines the level of funding the state must provide in a given year, how funds are allocated to school districts is left to the discretion of the Governor and Legislature. This section of the paper describes the structure of the school finance system. It examines the combination of state and local revenues that support education funding and the sources and distribution of those funds.[7]

According to the California Department of Education (CDE), total expenditures for K-12 education for the 2004-05 fiscal year were $59.3 billion or $9,863 per ADA. Table 3 summarizes the budget.

TABLE 3

---

[6] Robert Manwaring, op cit. pg. 3.

[7] While federal funds are shown in some tables, the focus of this discussion is on state and local funds available for K-12.

A. Funding Sources

California's state system of public education is supported by a combination of state, local, and federal sources. State revenues include personal income tax, sales tax, corporate taxes, state lottery revenue, and state bond funding for facilities. Local sources include property taxes, contributions, timber tax, interest income, developer fees, other fees, and local bond funding. The areas of interest for this paper focus only on the "current expense" of education—per pupil funding exclusive of long-term debt financing for facilities and capital outlay. Revenue sources to school districts are the following.

1) General Purpose Funding
    i) Base Revenue Limits
        (i) Local Property Taxes
        (ii) State Aid
    ii) Add-ons
    iii) Excess Taxes
2) Categorical Funding
3) Other Local Funding

Table 4 shows the distribution of K-12 revenues per ADA by district type in 2004-05.[8] As the chart indicates, there is some variation in revenue limits per ADA among the three types of districts. High school districts receive, on average, slightly under $1000 per ADA more than elementary districts and $943 per ADA more than unified districts. The category "Other State" funds comprise categorical funds—special purpose funds. In this funding category, unified districts receive, on average, $270 per ADA more than elementary and $471 per ADA more than high school districts. Under the current funding scheme, there is no adjustment to districts for the cost of education by district type. District type has been used primarily for equalization purposes,

to bring districts within the $100 inflation-adjusted funding band.

TABLE 4

1.

1. General Purpose Funding

General Purpose Funding = Base revenue limits + revenue limit add-ons + excess local property taxes. (Base revenue limits and revenue limit add-ons come from state funds plus local property taxes)

a. Base Revenue Limits: Local Property Taxes and State Aid

The base revenue limit is the principal component of the school funding formula. It is the amount of general purpose funding per ADA that a district receives in state aid and local property taxes. For most districts, it is the main source of general purpose funding. Each district has a unique base revenue limit. Differences in revenue limits among districts are historical, based on the revenue limits imposed by Senate Bill 90 in 1972-73.[9] When created, each district's base revenue limit was calculated by dividing its 1972-73 state aid and the schools' share of local property tax revenues by its ADA. The formula below is the basic formula that was used to determine each district's unique base revenue limit.

Base Revenue Limit/ADA = (State Aid to the district + local property tax collected by the district) / ADA

All districts' revenue limits were readjusted after Proposition 13. As the state compensated districts for their lost property tax revenues ("back-filled" lost property taxes with state general fund revenues), the legislature also adjusted revenue limits in order to equalize

[8] The school year 2004-05 is the most recent year that statewide, district-level finance data is available at the time of writing this paper.

[9] Since their creation, districts' revenue limits have been adjusted by various factors. These include the so-called "squeeze formula" that attempted to bring districts within the *Serrano* equalization band, various equalization efforts, and an increase in base revenue limits in 1998-99 to offset the loss of excused absences.

funding. This was referred to as the "squeeze formula," which meant that low property wealth districts received more state money per pupil than did high property wealth districts in order bring districts within the $100 per pupil funding band required by *Serrano*. The squeeze factor was an adjustment to districts' revenue limits. Some districts may have received a ten percent increase in funding while others received five percent. For a couple of years after proposition 13, all districts were guaranteed a minimum two percent increase even if they were high wealth. The base revenue limit comprises about 95 percent of total General Purpose funding.[10] (The remaining five percent of General Purpose funding is referred to as "add-ons." These are augmentations to revenue limits and are discussed in detail below.) The base revenue limit for a given district is calculated by the following formula:

Base Revenue Limit/ADA = (Prior Year Base Revenue Limit/ADA x District ADA) +/- State Adjustments11

The base revenue limit comprises two components: local property taxes and state aid. Under the revenue limit system, how much a district receives in state aid depends on how much property tax revenue it generates. Each district's share of property tax revenues is regarded as an offset to state aid. This is so, because a district's base revenue limit is unaffected by increases or decreases in its share of local property tax revenues. If property taxes in a district increase, the state share decreases dollar for dollar. The converse is true should local property taxes decrease. This is shown in the following example. If a district has a revenue limit

[10] Five percent is the average for all districts. However, that average masks considerable variation among districts. These variations have the effect of disequalizing revenue limits.
[11] The adjustments are discussed below. However, they include calculations of Average Daily Attendance (ADA), COLA, growth, equalization, and various other adjustments that are made periodically to a district's revenue limit calculation.

of $5,000/ADA and has property tax revenues of $2000/ADA, its state aid is $3000/ADA. If, in the next year, its property tax revenues increase to $3000/ADA, all other things remain equal, its state aid is reduced to $2000/ADA.[12] As the example shows, the formula for calculating the per pupil state aid portion of the revenue limit is the following:

State Aid/ADA = Base Revenue Limit/ADA - Local Property Tax/ADA

The revenue limit formula is used to compute a district's total revenue limit. The computed revenue limit is the revenue limit per ADA (based on the formula) which is then multiplied by the number of allowable ADA in the district. How a district's total or allowable ADA is computed from year to year has varied. In 1998-99, for instance, the revenue limit ADA was adjusted to offset revenue losses due to unexcused absences. (This mainly benefited districts with high absences.)[13] Currently, California's method of counting students is average daily attendance (ADA), the total days of student attendance, divided by the number of instructional days in the school year. School districts report ADA to the CDE three times a year, ADA figures are referred to as First Principal Apportionment (P1), Second Principal Apportionment (P2), and Annual Apportionment, the final one in the summer.[14]

Other adjustments to a district's computed revenue limit include inter-district transfers and charter school students. Districts with declining enrollments are allowed to cushion the loss of ADA by funding districts for the greater of current or prior year ADA.

---

[12] Locally voted bond debt is excluded from the local tax calculation in determining a district's revenue limit.

[13] There is an ongoing debate over the use of ADA or enrollments as the multiplier. School officials argue that a large percentage of their costs are fixed long before the school term begins. These costs are fixed for the entire school year, regardless of changes in enrollments over the course of the year. ADA differs from enrollment. ADA is normally less (approximately 95%) than actual enrollment because absences, even if excused, are not included in ADA.

[14] There is an ongoing debate over the use of enrollment or ADA as the revenue limit multiplier. Arguments for enrollment focus on the fact that about 80 percent of a district's cost are in personnel who are hired on an annual basis.

As discussed earlier, the ADA formula is historically based on district spending per ADA in 1972-73. Since then, it has been adjusted a number of times for equalization--particularly after Proposition 13--and continues to be adjusted periodically through the state budget process. The 2006-07 budget, for instance, provides $350 million for equalization. In addition to revenue limit equalization adjustments, schools receive annual cost-of-living adjustments (COLA) to their revenue limits.[15] The COLA calculation is based on the annual change in the Implicit Price Deflator for State and Local Governments. The 2006-07 budget allocates $1.9 billion (5.9 %) for the revenue limit COLA.

b. Add-ons

While Base Revenue Limit funding is one component of districts' general purpose funding , a second component is what is generally referred to as "add-ons." These account, on average, for about 5 percent of General Purpose funding.[16] Table 5 shows the add-ons to districts' General Purpose funds. Each is discussed below.

TABLE 5

Necessary Small School Formula. The Necessary Small School Formula supports districts that operate very small schools, most often in rural districts. For elementary schools, this applies to schools with fewer than 96 ADA and for high schools with up to 286 ADA. Districts that are under 2,500 ADA and maintain small schools in remote areas are also eligible. The necessary small school allowances are allocations on a classroom, not per pupil, basis. Funding is based on a combination of the ADA for the school and the number of teachers in the school. According to

[15] The COLA is statutory for revenue limits and for categorical programs.
[16] While the state average is five percent, there is considerable variation among districts regarding individual add-on adjustments.

the Legislative Analyst (LAO), in 2003-04, there were 149 districts that received funding under the formula. Average per ADA funding in 2003-04 for these districts was $4,235 for elementary and $2,979 for high school. The funding range was a minimum $20 and maximum $11,167 per ADA for elementary districts and $206 and $14,464 for high school districts. LAO cautions, however, that these averages are misleading in that 47 small elementary districts are funded entirely under the necessary small schools support—receiving no revenue limit funding. These districts receive, on average, $11,000 per ADA.

Excess Taxes. Districts are allowed to keep any excess taxes that they generate beyond their revenue limits. The difference in per pupil revenue between a district's revenue limit and property tax revenues above its revenue limit are considered "excess taxes" and are calculated as an add-on to a district's general purpose revenues.

Minimum Teachers Salary Provisions. In 1983, Senate Bill 813 (Chapter 498, *Statues of 1983),* in 1999 (BTS1) and again in 2000 (BTS2), the legislature encouraged districts to raise minimum teacher salaries.[17] The minimum salary incentive of SB 813, paid districts for the cost of establishing a higher minimum teacher salary. Districts are currently reimbursed based on each district's historical participation in the salary incentive program. Consequently, there is a wide range among districts in funding levels and some districts receive no funding even though they meet the basic eligibility requirements. BTS1 raised beginning teacher salaries to at least $32,000 and BTS2 raised them to $34,000. In 1999, the program provided $9.50 per ADA to districts that met the minimum salary, even if minimum salaries in the district already exceeded $32,000. The program in 2000 provided two funding options: (1) $6 per ADA to any district meeting the

minimum, and (2) the amount needed to bring all certificated teachers to $34,000, whichever is greater. In order to receive funding, districts must continue to meet the 1999-00 or 2000-01 minimum teacher salaries.[18]

Meals for Needy Pupils. Prior to Proposition 13, districts were allowed to levy a permissive override property tax for meals for needy pupils. This adjustment applies to those districts that levied the tax in 1977-78. In 2004-05, there were 375 districts funded under this provision. While the tax levy was initially for districts to provide meals for needy students, districts are no longer required to use these revenue limit funds for subsidizing meals. Districts are allowed to treat these as general purpose funds.

PERS Reduction. The Public Employees' Retirement System (PERS) reduction is an Education Code provision that reduces each school district's revenue limit payments by the amount attributed as "savings" related to district contributions to PERS. Through a complex series of calculations, this provision reduces each school district's revenue limit payments on the basis that school district costs for contributions to PERS are less today than they were in the 1982-83 fiscal year. In effect, current law "captures" for the state all savings that otherwise would accrue to school districts from reduced employer contribution rates for PERS. One version of the PERS reduction is that it was solely for the purpose of strengthening the state's budget condition 1981. An other version is that in the 1970s and early 1980s, the state increased state funding to districts in recognition that districts' costs for PERS were increasing. In 1982-83, when the PERS rate started to fall, the state wanted to recapture the extra funding it had

[17] The first measure to increase teacher minimum salaries was in SB 813 in 1983.

[18] LAO, op cit 2003.

invested. Whatever the rationale, it is worth noting that the state does not adjust revenue limit payments for changes in the cost of other specific education inputs (such as maintenance, utilities, or payroll).[19]

Unemployment Insurance. (UI) In another post-Proposition 13 adjustment, the state pays districts' unemployment insurance costs that exceed the amount incurred by districts in 1975-76. The adjustment is calculated by taking the unemployment insurance expenditures for a given year and subtracting the 1975-76 unemployment expenditures. If a district had unemployment expenditures of, say, $100,000 in a given year, and its actual 1975-76 expenditures were $ 50,000, its unemployment revenue adjustment would be $50,000.

2. Categorical Funding

In addition to general purpose funding, another significant portion of districts' revenues are categorical aid. There are four types of categorically funded programs: *entitlement, incentive, discretionary grants, and mandated cost reimbursement*.

These funds are targeted to categories of children with special needs such as students with disabilities or non-English speakers; district characteristics such as low-income families, high pupil transportation costs; and special programs such as professional development for teachers and administrators and class-size reduction.

Entitlement programs are formula-driven. Their funding is based upon student characteristics such as disability, limited English speaking ability, or wealth. Such programs recognize that certain students require more intensive or specialized educational services. Entitlement programs serve the equity objective of giving additional funds to districts for

[19] See the Legislative Analyst http://www.lao.ca.gov/analysis_2001/education/ed_07_Discretionary_anl01.htm

students who have greater need for educational services, thus providing some protection of general purpose funds from encroachment by special needs. For example, if a district had to provide language instruction for large numbers of students, the cost of providing such instruction would strain local resources. The roots of entitlement programs are generally legal and political. Special education program funding grew out of several law suits on behalf of handicapped children. Similarly, language instruction for non-English speaking students had their origins in the United States Supreme Court decision in *Lau v. Nichols.*[20]

Consequently, educational services for children with disabilities are funded through the Special Education program[21]. In 2005-06 state spending for special education was $27 billion. Economic Impact Aid (EIA) targets low-income and English-learner students. In 2004-05, state spending for EIA is $536.2 million, about $236 per eligible child.[22]

Incentive programs target state policy objectives by providing districts with additional resources. The K-3 Class-Size-Reduction Program, for instance, provides funding to districts that reduce class sizes in K-3 grades to 20 or lower. Similarly, the class-size reduction program for grade nine provides funding for schools to reduce class sizes to 20 in one or two courses in grade nine. The English Language Acquisition Program provides $100 per student in grades 4-8 to participate in English language instruction. Another example of an incentive categorical program includes professional development programs such as AB 466 for mathematics and reading were created to align state standards with teaching practices. The objective of AB 75,

---

[20] *Mills v. Board of Education* 348 F. Supp 866 (D.D.C. 11972); *Pennsylvania Association for Retarded Children (PARC) v. Commonwealth,* 334 F.Supp. 1257 (E.D.Pa. 1971), 343 F.Supp. 279 (E.D.Pa. 1972); *Lau v. Nichols.* 414 U.S. 563 (1974).

[21] This is not to suggest that the amount of revenue per pupil for special education is sufficient to fund all services.
[22] Since 2004-05, the state allocation formula for EIA has changed to target needy students.

the Principals' Training Program, was to promote school-level leadership for implementing state standards in mathematics and language arts.

Discretionary or competitive grants programs are available to districts on a competitive basis. Districts must write successful grant applications to receive funding. Funding is generally for a specified period.[23] The range and types of programs in this category are considerable. They include the High Priority School Grants Program (HPSGP) and the Immediate Intervention/Underperforming Schools Program (II/USP) both of which provide funding to low-performing schools. To receive these funds schools were required to submit a two or three-year improvement plan and had to agree to comply with various state guidelines.

Mandated Cost Reimbursement. The California Constitution (Article XIIIB, Section 6) requires the state to reimburse districts for the cost of any new program or increased level of service of an existing program mandated by statute or executive order. In the *2003 Budget Act* and in the *2004 Budget Act*, the legislature deferred reimbursements to school districts. At the time, the Legislative Analyst's Office estimates that the state would owe districts over $1 billion for deferred mandate reimbursements.[24]

While states and the federal government often rely on categorical funding in order to influence local spending decisions, the growth of categorically funded programs in California is unusual among states. Since 1980, the legislature has multiplied the number of categorical programs more than six-fold. By 1980, there were 17 state-funded categorical programs comprising, on average, 13 percent of total K-12 funding. In addition to Special Education and

[23] There are exceptions, of course. The Miller-Unruh Reading Demonstration Program has funded some of the same districts since the late 1960s.

[24] The 2006-07 State Budget, passed in June, provides about $900 million to eliminate the backlog of deferred const

EIA, they included programs such as Bilingual Education, Drivers' Training, Mentally Gifted Minors, Educational Technology, and Environmental Education. Most programs were funded from the state's general fund, others such as Environmental Education were funded through the Environmental License Plate Fund.

Also, since 1980, there has been a dramatic shift in the share of funding between restricted and unrestricted funds. Between 1980 and 2000, average per pupil funding increased by 15 percent in constant, 2000, dollars from $5,422 to $6,232. Over that period, the categorical share of those dollars increased from $705 to $1,870, an increase of 165 percent, while the revenue limit share declined by nearly 8 percent, from $4,717 to $4,362. For a class of 30 students, that represents a decline in discretionary spending of $10,650.

In response to the seemingly explosive growth of categorical programs and funding, the Legislative Analyst, in 1993, conducted a study of categorical program funding in education. The study, "Reform of Categorical Education Programs: Principles and Recommendations," identified 57 categorical programs that received state support during 1992-93. The study acknowledges the difficulty in determining the exact number of categorical programs and of classifying them according to their purpose. The study notes, for instance, that Child Development represents eight distinct child development programs operated by local agencies, while Special Education consists of five separate programs for students with disabilities.[25] The Analyst's study identified four categories of funding: (1) Programs for Students with Special Education Needs, comprising 12 programs; (2) Programs to Improve Instruction and

---

reimbursement.

[25] Legislative Analyst. *Reform of Categorical Education Programs: Principals and Recommendations.* Sacramento, CA: Office of the Legislative Analyst (1993) p. 10

Curriculum, comprising 25 programs; (3) Programs Addressing Student Social and Health Needs, comprising 9 programs; and (4) Administration and Other Programs, comprising 11 programs.

In 2004-05 the CDE in its Standardized Accounting Code Structure data files (SACS) lists 233 state and federal categorical programs.[26] As in 1993, they cover a wide range of programs, targeting a variety of policy objectives. Among them are funds for charter schools, various provisions of the school accountability law, professional development, special education, student services, school safety, vocational and occupational programs, technology, curriculum and instructional improvement, class-size reduction, and year-round schooling.

Just as categorical programs represent a wide range of state policy objectives, there is considerable variation among them in state funding levels. Largest among categorical programs are Special Education Program Grants, at $2.7 billion in state funds and comprising about one-fifth of total categorical funding. At the other extreme is Mathematics Staff Development at $5 million, comprising 0.2 percent of categorical funding. Even among those largest programs that comprise 88 percent of total state categorical funding, there is again considerable variation in funding levels. Following Special Education are Class Size Reduction funded at $1.65 billion in 2004-05 and Targeted Instructional Improvement Grants (formerly Court-Ordered and Voluntary Desegregation Funding) at over $667.6 million. At the lower end were After School and Safe Neighborhood Partnership Programs at $121.6 million.

The data show that between 1998-99 and 2001-02, funding among categorical programs

[26] California Department of Education, Fiscal and Administrative Service Division. http://www.cde.ca.gov/ds/fd/fd/

increased by 37 percent, from $8.55 billion to $11.7 billion.[27] New programs account for a large share of that increase. The Public School Accountability Act with its associated programs accounted for $1.85 billion of the $3.16 billion, nearly 60 percent, increase between 1998-99 and 2001-02. [28] Staff Development accounted for another $180 million of new funding.

Among the largest categorical programs, there is considerable programmatic overlap. Two staff development programs account for $404.6 million. There are several programs targeted to instructional improvement. Class-size reduction programs at the elementary and secondary level amounted to over $1.7 billion in 2004-05. Adult Education and Regional Occupation Programs accounted for nearly one billion dollars. Economic Impact Aid (EIA) targets additional resources to disadvantaged students. The School Improvement Program (SIP) provides money to schools to engage in school-level instructional improvements. Another among the major categorical programs, provides instructional and library materials. Finally, Supplemental Grants attempt to "equalize" funds by providing categorical monies to districts that receive less than the state average in categorical funds, largely because of their demographics.[29]

Programmatic overlap is even more pronounced when one looks at the entire array of categorical programs. There are a half dozen programs for staff development (in addition to the ones noted above); there are programs for training principals and high school athletic coaches. There are a variety of school safety programs, funds for instructional materials, before and after

[27] The period between 1989-99 and 2001-02 is used to illustrate the increasing reliance on categorical funding. Total categorical funding declined somewhat in subsequent years, due largely to the state's huge deficit. However, the 2006-07 budget adds $400 million for new, ongoing categorical programs.
[28] One feature of this program that gave financial rewards to schools that showed improvement has been discontinued.

school programs, county fiscal oversight of districts, technology, and school-to-work programs. There are, for instance, four programs aimed at making advanced placement courses more accessible to students. In addition to the categorical programs listed here, there are yet others that go to community colleges, campuses of the state university and the University of California. These include various outreach and student services programs. While funding for these programs flows to higher education, they target K-12 students or schools. This is true also for staff development and various subject matter programs. The California writing, science, and math projects are funded through the University of California, Office of the President. The categorical programs represent a bewildering array of funding streams and program requirements that, once created, take on a life of their own and are rarely reviewed or evaluated.

a. Categorical Reform

The proliferation of categorical programs, general complaints from schools about the inflexibility and bureaucratic complexity, and the seeming lack of transparency in allocation culminated in an effort in 2004 to reform categorical program funding. Assembly Bill 825 (Chapter 871, *Statutes* of 2004) attempted to consolidate programs in similar or overlapping areas. The legislation created six new block grants consolidating 25 categorical programs comprising roughly $1.82 billion of the total $10.8 billion in total categorical program funding for 2005-06. The new programs are the following:

- Teacher Credentialing Block Grant
- Pupil Retention Block Grant
- Professional Development Block Grant

[29] See T. Timar op cit 1994 and T. Timar op. cit. 2004

- Targeted Instructional Improvement Block Grant
- School and Library Improvement Block Grant
- School Safety Consolidation Block Grant

Block grant funding was based upon each district's funding for the component program in 2003-04 and adjusted for growth and cost of living.

The new block grants provide districts with varying degrees of flexibility in spending. Funding for the Teacher Credentialing Block Grant and the Pupil Retention Block Grant can be used only for programs comprising the block grant. Those funds, may, however be augmented by an additional 20 percent by transfers from any of the other four programs. The other four programs all allow for funds to be transferred out—to a maximum of 15 percent—and transferred in to a maximum of 20 percent. Additionally, 15 percent of the funding from the latter four programs may be transferred to any other categorical program so long as it does not exceed 20 percent of the program's total funding.

In 1981, the legislature created the Mega Item that allowed districts to move 10 percent in and 15 percent out among a limited number of categorical programs. Districts' capacity to shift funding among programs as a result of the block grants is regarded by some as a significant improvement over the Mega Item.

In spite of efforts to consolidate the existing array of categorical programs, major flaws persist. Chief among them is that only a fraction of categorical programs has been consolidated. More importantly, among those that have been consolidated, consolidation did nothing to address equity issues. Past analyses have pointed to funding formulas that seem to have no connection to specific policy objectives: funds do not target intended recipients and, conversely,

funds flow to districts that have no discernible need for them.[30] The Targeted Instructional Improvement Block Grant, for instance, folds in the Targeted Instructional Improvement Grant programs that used to be called the Court-Mandated and Voluntary Desegregation Program. Schools that received those funds in the past continue to receive those funds into the foreseeable future. Districts are required to use those funds for improving instruction in schools in the 1-5 deciles on the API. One district with about 350 students and over $26,000 per ADA in revenues in 2004-05 received over $1600 per ADA while another district with similar demographics and much lower revenues and per pupil receives $10 per ADA.

Generally, there has been little accountability for local expenditure of categorical program funds. Some district officials readily admit that they often treat categorical funds as if they were general purpose funds.[31] In addition, the basis for allocation is often difficult to justify. Economic Impact Aid, one of the oldest and largest programs, flows only marginally to those for whom it was intended.[32] The implicit allocation rule seems to be that once a district receives funding for a categorical program, it will continue to receive it. Since categorical program funding falls outside the *Serrano* equalization band, the rationale for funding should be carefully scrutinized. Indeed, it is difficult to understand the difference between some categorical programs and general purpose funding. Class size reduction funding, for instance,

---

[30] . See LAO Legislative Analyst. *Reform of Categorical Education Programs: Principals and Recommendations.* Sacramento, CA: Office of the Legislative Analyst (1993); Thomas Timar. *Categorical School Finance: Who Gains, Who Loses:* Berkeley, CA: Policy Analysis for California Education. 2004

[31] This information is anecdotal. However, there is generally little oversight and accountability for how state categorical funds are spent.

[32] In its *Analysis of the 2006-07 Budget Bill*, the LAO argued that the EIA funding formula was "outdated, resulting in district allocations appear arbitrary and unpredictable, and …have become unworkable." The 2006-07 budget modified EIA by increasing funding by $350 million, using Title I as the poverty indicator and distributing funding based on EL pupil and Title I pupil counts, sets the equalization target at $600 per eligible student, and revises the existing concentration grant.

flows to 99 percent of districts.

3. Other Local Revenue

This is a broad category of funds that includes parcel taxes, reimbursements and donations, leases, transfers, fees, and other sources of local revenue. Existing local revenue options are limited to parcel or square footage taxes.

Parcel Taxes. Proposition 13 allows districts to levy non ad valorem taxes if two-thirds of voters approve. Parcel tax payments are generally a flat fee on each parcel rather than on the assessed value of the property. The proceeds are almost always tied to education programs rather than construction. The ballot proposal prepared by the district seeking parcel taxes describes the purpose for which additional revenues will be used. From 1983 through November 2005, voters approved 208 [33] parcel taxes in 405 elections; 137 received majority vote, but not the necessary two-thirds approval.

In 2004-05, 66 districts received revenues from parcel taxes. The range was a minimum of $56 per ADA in Hayward Unified School District to a high of $3,239 in Bolinas-Stinson Union Elementary District in Marin County. The mean among districts imposing parcel taxes was $717 per ADA, while the median was $484 per ADA.[34] While most districts with parcel taxes are in affluent, demographically homogenous, and high SES communities, not all are. Emery Unified, Berkeley Unified, and Hayward Unified are the exceptions.

Local Option Sales Tax (Chapter 12X, *Statutes of 1991)* permits formation of a local finance authority that, upon agreement of 50 percent of the school districts in a county, may call for an election to authorize a county-wide one-half cent sales tax to support public education and

various other county programs. The tax can be approved by a simple majority of a county's voters. While this has the potential of raising significant revenues state-wide—in 1994-95, LAO estimated $1.4 billion annually—court decisions call into question the legality of the simple majority vote.. The tax was not invalidated by the court, however, because the measure received more than the two-thirds majority required. The City and County of San Francisco has been the only county to successfully impose this tax.

Table 7 shows the level and sources of "Other Local Revenues."

TABLE 7

After Parcel Taxes, the next highest source of discretionary revenue to districts is *All Other Local Revenue,* a category that includes gifts and contributions, fines (library) and reimbursements. Because the category is something of a grab-bag, it is difficult to know the precise source of funds. The statewide mean for this category is $209 per ADA, with a minimum of zero and a maximum of $3907 per ADA. Increasingly, districts rely on private donations and foundations to raise additional funds which may be used to hire art or music teachers, renovate facilities, purchase instructional materials or technology, or pay for any number of supplemental services. Generally, districts with the highest revenues in this category are located in high SES communities.

Mitigation/Developer Fees are fees collected by agreement between developers and school districts and, technically, not imposed as a condition of approving residential development.[35] Any fees collected as a condition to approving a development must be deposited in the Capital

[33] Some of the 208 were districts in which voters approved parcel taxes in more than one election.
[34] CDE: SACS 2004-05 data.
[35] Some would argue that while technically this is so, developer fees are, in many instances, imposed as a condition to

Facilities Fund.

It is clear from Table 7 that discretionary revenues to districts, in addition to their revenue limits and categorical funding, is rather limited. Most of the funds in this category of "Other Local Revenues" are from transfers, leases, joint powers agreements, and various fees that districts may collect. While charging fees for certain educational programs, mainly the non-state-funded adult education programs may pay for the cost of the education services that districts provide, these are limited options and tied to specific activities. Most importantly, they are not revenues, but fees for services. Joint power agreements among school districts and other local governmental entities may create some efficiencies and cost savings, and thereby free up general fund revenues, but again their use is limited. How much savings a district may realize from the creative use of such agreements is difficult to determine.

While districts do have some options for generating revenues beyond their statutory limits, those options are limited. The limitations are of two sorts. One is that there are few instruments available to districts. The other is that existing instruments are not realistic for most districts because of the two-thirds vote requirement. As discussed above, very few districts have succeeded in passing parcel tax initiatives. For those districts that have been successful, parcel taxes are generally for fixed time, three to five years, at the most. While some districts may be successful in getting voters to approve successive parcel tax measures, the data show that those districts are the exceptions. The county-wide sales tax is another potential revenue source, it has been used in only one county—San Francisco. Its widespread use, as that of parcel taxes, is limited due to the two-thirds vote requirement. Other current sources of local revenues

---

approving residential development.

are pretty much confined to donations through foundations.

III. Issues Related to the Distribution of K-12 Funds

How schools are funded in California has changed dramatically since the enactment of revenue limits in the early 1970s. That change was accelerated by Proposition 13 in 1978. Prior to revenue limits, districts determined levels of funding and exercised spending control over those funds. In the current system, the state determines funding levels and makes broad policies about the allocation of funds. Local school boards retain authority to determine how funds are used, but that authority has been considerably diminished in several ways. The most obvious is the limited (and for some, non-existent) ability to increase funding through local tax levies. The other has been the reduced share of discretionary funding relative to non-discretionary, categorical funding.

While the diminution of local control over funding is regarded by many local school officials as a negative feature of the funding system, on the positive side, the accretion of state authority over funding has had some impact on equalizing funding among districts. All but a handful of small districts with an equally small percentage of the state's total students fall outside the inflation-adjusted equalization band. In 1974-75, when *Serrano* was decided, 51 percent of pupils were within the specified band. By 1991-92, 96 percent of pupils fell within the specified band (at that time, about $300 per pupil after adjusting for inflation). Moreover, students who fall outside the band are above the band, not below it. Obviously, state assumption of school finance has been good for reducing inter-district disparities in funding.[36] However, equalization has affected only a portion of per pupil funding to schools—base

revenue limits. On the other hand, both add-ons categorical programs undermine equalization due to significant variation in funding among districts.[37]

Some observers note, however, that state control over funding has diffused fiscal accountability and eroded local control over the level and type of educational services offered.[38] Since the 1990s, a number of districts—Oakland, Richmond, and Compton, among them—have gone bankrupt, forcing them into state receivership until they become fiscally solvent. While the state allocates about $14 billion annually to categorically funded program, those programs are rarely, if ever, evaluated for their effectiveness or audited for compliance. Schools are generally limited to providing only those services that the state funds. There is little discretionary money available to districts that want to start a new programs, they must go to the state to get special purpose funding to pay for them, as few districts have any discretionary money for new programs or services.[39]

The current system of school finance is one that has been cobbled together in response to various pressures over the past thirty-some years. What is missing from the resulting patchwork of policies is an underlying framework or set of principles to guide the system. As a result, the system has little coherence or clarity. For instance, the policy goal of inter-district equalization is achieved through revenue limits, but undone by categorical programs. While the Supreme Court in *Serrano* excluded categorical programs from equalization since, in theory at least, they are targeted to special needs. As studies have shown,

---

[36] LAO, 1994 p. 139
[37] LAO, 2002-03; Timar, 1994, 2004.
[38] LAO, 1994 p. 138
[39] The constraints on discretionary funding are particularly true with the increased cost of salaries and benefits.

however, the rationality of some of these programs is not obvious.[40] The state holds schools accountable for the results of pupil performance, but schools are not given the resources and flexibility to allocate them to achieve those results. The current funding system operates on inputs and processes while the accountability system operates on student performance. If schools are to be held accountable for results, they should be able to decide how best to achieve those results. For instance, most schools do not have the discretionary funds to tailor staff development programs to their particular needs.

Children, schools, and districts all differ. Children arrive at school with different expectations for schooling, different levels of preparation, and come from vastly different home environments. Schools throughout the state have different mixes of students, ranging from high concentrations of low-income, disadvantaged students to concentrations of high-income, highly advantaged students. Finally, districts serve communities with different needs and preferences for education. A single system such as California has created simply cannot meet those varying needs.

A healthy partnership between the state and local education agencies is essential condition of a robust, effective system of education. As a partnership, it argues for the need to develop a framework for school finance. There should be a set of principles that define state and local roles and responsibilities for revenues, program control, and accountability. A coherent

[40] See, for instance T. Timar. "Policy, Politics, and Categorical Aid: New Inequities in California School Finance," *Education Evaluation and Policy Analysis* 16(2) 143-160 (1994); and *Categorical School Finance: Who Gains, Who Loses?* (Working Paper Series 04-2). Policy Analysis for California Education, School of Education, University of California, Berkeley and Davis, Stanford University. Also Legislative Analyst's Office (http://lao.ca.gov/handouts/education/2006/EIA_050206.pdf)

framework and set of principles are clearly missing from the current system which has been built opportunistically in response to specific needs and problems. It is doubtful that anything short of a comprehensive overhaul of the system is likely to lead to its improvement.

Figure 1
Sources of Funding for K-12 Education
(2004-05)

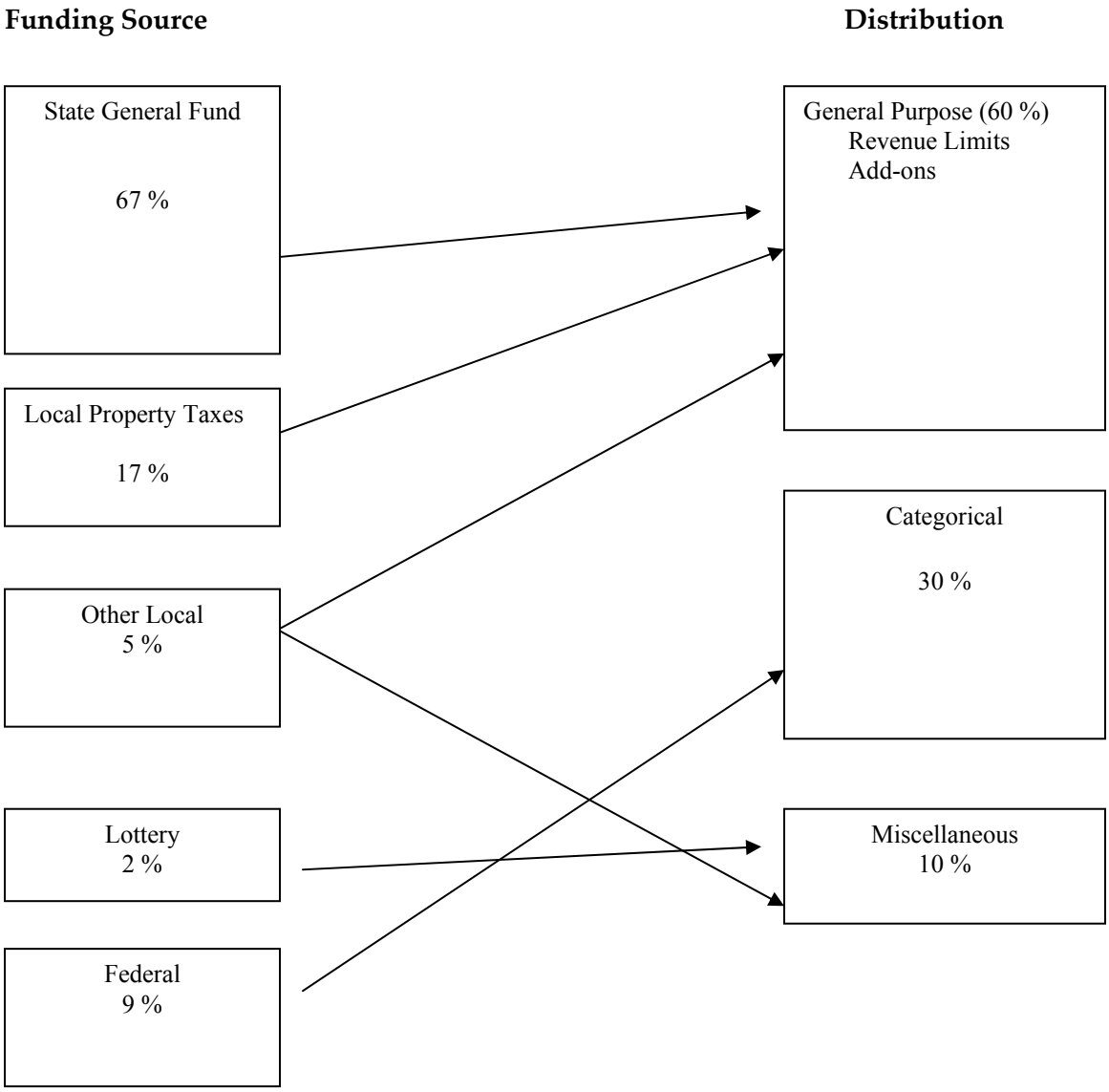

Table 1
Comparison of Selected Tax Rates and Expenditure Levels in Selected Counties (1968-69)

County	*ADA*	*Assessed Value per ADA*	*Tax Rate*	*Expenditure per ADA*
Alameda				
Emery Unified	586	$100,187	$2.57	$2,223
Newark Unified	8,638	6,042	6.65	616
Fresno				
Coalinga Unified	2,640	33,244	2.17	963
Clovis Unified	8,144	6,480	4.28	568
Kern				
Rio Bravo Elem.	122	136,271	1.05	1,545
Lamont Elem.	1,847	5,971	3.06	533
Los Angeles				
Beverly Hills Unified	5,542	50,885	2.38	1,232
Baldwin Park Unified	13,108	3,706	5.48	577

Source: Legislative Analyst, Public School Finance, Part V, Current Issues in Educational Finance (1971) p. 8.

Table 2:
Proposition 98 Operative Test by Year

Year	Operative Test	Growth Factor Per Capita	
		Personal Income	General Fund
1998-89	1	3.9%	—[a]
1989-90	2	5.0	—[a]
1990-91	3	4.2	-4.0%
1991-92	2	4.1	8.0
1992-93	3	-0.6	-4.4
1993-94	3	2.7	-3.4
1994-95	2	0.7	6.6
1995-96	2	3.4	8.1
1996-97	2	4.7	5.6
1997-98	2	4.7	10.7
1998-99	2	4.2	6.5
1999-00	2	4.5	18.3
2000-01	2	4.9	6.9
2001-02	3	7.8	-18.6
2002-03	2	-1.3	1.0
2003-04	2	2.3	5.9
2004-05	Suspended	3.3	7.2
2005-06[b]	2	4.5	5.7

[a] Test 3 was added to Proposition 98 in 1990 by Proposition 111. Thus, per capita General Fund revenues were not part of the calculation in these years.

[b] Based on *2005-06 Governor's Budget*.

LAO, Proposition 98: How California Funds K-14 Education. Sacramento Economics Roundtable 2005, pg. 4. (http://www.lao.ca.gov/handouts/education/2005.

Table 3
Funding for K-12 Education
All Sources and Proposition 98
(2004-05)
(Dollars in Thousands)

Sources of Funding	Funding from All Sources	Proposition 98 Sources
State General Fund	$34,050,000	$30,873,601
State Lottery	793,400	--
Other State Funds	85,800	--
Federal Funds	7,572,800	--
Local Property Tax	11,441,100	11.213,733
Local Debt Service Tax	1,195,900	--
Other Local Funds	3,794,500	--
Total	$59,933,500	$42,087,334

Source: CDE

Table 4
Distribution of State K-12 Revenues per ADA by District Type
(2004-05)

Source	Unified	Elementary	High School	All
Revenue Limits				
State Aid	$3,216	$3,043	$3,110	$3,204
Local prop. taxes	1,710	1,838	2,759	1,857
Total Revenue Limits	(4,926)	(4,881)	(5,869)	(5,061)
Other State	1,540	1,270	1,069	1,457
Other Local	361	543	525	417
Total	$6,827	$6,694	$7,463	$6,936

Source: California Department of Education. http://www.ed-data.k12.ca.us/welcome.asp

Table 5
Major District Revenue Limit Sources per ADA
(2004-2005)

Revenue Source	All Districts			
	Mean /ADA	Median /ADA	Minimum /ADA	Maximum /ADA
Tax Relief, Subventions				
Homeowners' Exemptions	$32	$25	$0	$395
Timber Tax Yield	18	0	0	1377
Other Subventions/ In-Lieu Taxes	2	0	0	1377
County and District Taxes				
Secured Roll Taxes	2209	1415	112	26888
Unsecured Roll Taxes	111	66	0	1516
Prior Years' Taxes	15	3	0	812
Supplemental Taxes	102	76	0	1028
Community Redevelopment Funds	0	0	0	22
Penalties and Interest from Delinquent Taxes	0	0	0	25
Education Revenue Augmentation Fund (ERAF)	161	53	0	9798

Source: CDE, SACS 2004-05

Table 6
General Purpose Revenue Add-Ons

Program	Description	Total Cost
Necessary Small Schools	Subsidizes small schools (under 100 students) in small districts	109.7 (0.4 %)
Excess Taxes	Property tax revenues in excess of the amount needed to fund a district's revenue limit entitlement. These districts received only basic aid and categorical funds from the state. As of 2003-04, categorical funds may be counted toward the basic aid requirement.	201.4 (0.6 %)
SB 813 Incentive Programs	Funding to increase the school year, school day, and to increase minimum teacher salaries. Enacted by SB 813 in 1983.	1,213.7 (4 %)
Meals for Needy Pupils	Funding in-lieu of property tax revenues that were approved by voters prior to Proposition 13.	126.8 (0.6%)
Minimum Teacher Salary Incentive	Funding to increase minimum teacher salary. Enacted in 1999 and 2000.	87.1 (0.3%)
Inter-district Attendance	Funding for inter-district attendance	0.5 (0.02%)
Unemployment Insurance (UI)	Reimbursement of a district's UI costs in excess of the district's UI costs in 1975-76	212.2 (0.1%)
Public Employment Retirement System (PERS) reduction	Reduces district funding if district's cost of PERS is below the 1982-82 rate of 13.02 %.	-10.3 (1.9 %)

(2004-05: Dollars in Thousands)

Source: LAO, School District Revenue Limits. March 15, 2004.
http://www.lao.ca.gov/handouts/education/2004/Schoo_District_Revenue_Limits/031504.pdf

Table 7
Other Local Revenues for Schools per ADA

Revenue Source	Mean	Median	Min.	Max
Parcel Taxes	$49	0	0	$3229
Other Non-Ad Valorem Taxes (e.g. sales taxes, maintenance assessment)	7	0	0	1743
Community Redevelopment Funds Not Subject to Revenue Limit Deduction	4	0	0	494
Penalties and Interest from Delinquent Non-Revenue Limit Taxes	0	0	0	39
Non-resident student fees	0	0	0	8
Transportation Fees from Individuals	4	0	0	170
Interagency Services Between LEAs	61	4	9	2394
Mitigation/Developer Fees	0	0	0	27
All Other Fees and Contracts	14	0	0	696
All Other Local Revenue	209	106	0	3907
Tuition	2	0	0	278
Transfers from Sponsoring LEAs to Charter Schools	11	0	0	4537
All Other Transfers from Districts	1	0	0	295
All Other Transfers from County Offices	5	0	0	347
All Other Transfers from JPAs	1	0	0	346
Transfers of Apportionments from Districts	17	0	0	2145
Transfers of Apportionments from County Offices	214	181	0	4987
Transfers of Apportionments from JPAs	21	0	0	3205
Other Transfers In from All Others	2	0	0	485

(2004-05)

Source: CDE, SACS 2004-05

1..Examples of revenue recorded in this account are library fines, contributions, gifts, and reimbursement for practice teaching

REFERENCES

California Department of Education, Fiscal and Administrative Services Division. *Report on the Budget Act of 2004.* http://www.cde.ca.gov/fg/fr/eb/

Elmore & McLaughlin, *Reform and Retrenchment: The Politics of School Finance Reform.* Cambridge, MA: Ballinger Press (1982)

Gándara, P., Larson, K., Mehan, H., & Rumberger, R. (1998). Capturing Latino students in the academic pipeline. Sacramento, CA: Chicano/Latino Policy Project.

Goldfinger, P.M. *Revenues and Limits: A Guide to School Finance in California, 2006 Edition.* Sacramento, CA: School Services of California.

Goldfinger, P.M. & Bob Blattner. *Revenues and Limits: A Guide to School Finance in California, 2005 Edition.* Sacramento, CA: School Services of California.

Legislative Analyst. *Reform of Categorical Education Programs: Principals and Recommendations.* Sacramento, CA: Office of the Legislative Analyst. 1993

Legislative Analyst's Office. *Analysis of the Budget, 2006-07.* Sacramento, CA: Legislative Analyst's Office http://www.lao.ca.gov/

Legislative Analyst' Office. *Analysis of the Budget, 2005-06.* Sacramento, CA: Legislative Analyst's Office. http://www.lao.ca.gov/

Legislative Analyst's Office (http://lao.ca.gov/handouts/education/2006/EIA_050206.pdf)

Legislative Analyst's Office. *Analysis of the Budget, 2004-05.* Sacramento, CA: Legislative Analyst's Office http://www.lao.ca.gov

Legislative Analyst's Office. "The Distribution of K-12 Education General Purpose Funds.". Sacramento, CA: Legislative Analyst's Office. December 22, 2003 http://www.lao.ca.gov/

Manwaring, R. "Proposition 98 Primer." Legislative Analyst's Office. Sacramento, CA (February, 2005).

Serrano v. Priest, 487 P.2d 1241 (1971) and 557 P.2d 929 (1976).

Sonstelie, J. *For Better or Worse: School Finance Reform in California.* San Francisco, CA: Public Policy Institute of California. (2000);

T. Timar. *Categorical School Finance: Who Gains, Who Loses:* Berkeley, CA: Policy Analysis for California Education. (2004)

T. Timar. "Policy, Politics, and Categorical Aid: New Inequities in California School Finance," *Education Evaluation and Policy Analysis* 16(2) 143-160 (1994).

APPENDIX
California State Budget for K-12 Education
2006-2007

Item	Amount
Total General Fund Budget	$67.1 billion
Proposition 98 Funding	$49.1 billion
K-12 ADA	5,957,985
Amount per ADA	$8,244
Amount per ADA from all funding sources[1]	$11,264

Source: Legislative Analyst, California State Budget 2006-07
1. Source: California Department of Finance, K-12 Education, California State Budget 2006-07

Major Features

Item	Amount (in millions)	Amount per Pupil
Ongoing Funding		
Base Revenue Limit COLA @ 5.92 %	$1,1914.6	$321
Categorical COLA @ 5.92 %	$689.2	$116
Deficit Reduction	$308.6	$52
Equalization	$350	n/a
Economic Impact Aid Augmentation	$350	n/a
Instructional Materials	$592	$96
California High School Exit Examination	$54.1	$500/ 12th grader
Grade 7-12 Counselors	$200	$79/ 7-12 grader
Arts and Music	$105	$13
Preschool Expansion	$50	*
K-8 PE Teachers	$40	$35,000 per school
School Meal Reimbursement	$37.8	$6
English Language Professional Development	$25	n/a
One-time Funding		
Discretionary Block Grant	$5325.5	$171
Mandates	$933.2	cost reimbursement
Instructional Materials	$135	n/a
Equipment (art, music, PE: $100; career tech: $40)	$140	n/a
Teacher Recruitment	$50	$28 per decile 1-3 student
Preschool Facilities	$50	*

*data not available
Source: Jay Shenirer, Capitol Impact LLC