

# SCHOOL FINANCE

## PART 2: PROBLEMS WITH CURRENT FUNDING FORMULAS

Several published reports have identified a number of problems with the current funding formulas. They include reports from the Legislative Analyst’s office, the California Bureau of State Audits, the California Budget Project, EdSource, as well as an in-depth series of articles published by The Sacramento Bee. The three major areas that have been identified in these reports include revenue limit or general purpose reform, categorical funding reform, and state mandates reform. The following section will highlight this information.

### 1. Revenue Limit—or General Purpose Funds

As mentioned in the background information (see School Finance, Part I), each school district receives money from the state based upon what type of district it is (elementary, high school or unified district) and the actual ADA generated. However, a March 2004 report published by the Legislative Analyst’s Office (LAO), shows that there are significant differences even when the districts are divided into smaller, more similar sized groupings.

<b>Revenue Limit by Size and Type (2002-03)</b>					
	Number of Districts	Median	Ninetieth Percentile	Difference	
				Amount	Percent
<b>UNIFIED</b>					
Large (more than 1500 ADA <sup>a</sup> )	258	\$4,512	\$4,580	\$68	1.50%
Small	69	4,856	5,062	206	4.20%
<b>HIGH SCHOOL DISTRICTS</b>					
Large (more than 300 ADA <sup>a</sup> )	87	\$5,191	\$5,300	\$109	2.10%
Small	4	5,720	5,812	92	1.60%
<b>ELEMENTARY SCHOOL DISTRICTS</b>					
Large (more than 100 ADA <sup>a</sup> )	473	\$4,347	\$4,429	\$82	1.90%
Small	91	5,323	5,484	161	3.00%
<sup>a</sup> Average Daily Attendance				<i>Source: Legislative Analyst</i>	

The chart on the following page gives a brief description of the revenue adjustments and the number of school districts that benefit from the adjustments.

2002-03 Major Revenue Limit Categories							
	Category Description	# of Districts	% of Districts	Funding In Millions	Amount per ADA		
					Min	Avg	Max
Revenue Limit	Pays for the basic costs of educating a student.	982	100%	27,753	\$4,345	\$4,766	\$8,270
Basic Aid	Constitutionally required minimum funding for districts that receive little or no state revenue limit funding.	67	7%	-	\$120	\$120	\$150
Excess Taxes	Property tax revenues in excess of the amount needed to fund a district's revenue limit entitlement. These districts receive only basic aid and categorical funds from the state. (Non-Proposition 98).	60	6%	201	\$7	\$3,437	\$58,720
Longer Year Incentive	In 1983, the Legislature created three incentive programs to encourage districts to increase instructional time and teacher salaries	979	100%	1,232	\$0	\$206	\$779
Meals for Needy	Funding in lieu of property tax revenues that were approved by voters prior to Proposition 13	375	38%	127	\$0	\$42	\$14,159
Unemployment Insurance	Approved by voters prior to Proposition 13.	954	97%	212	\$0	\$5	\$113
Continuation Schools	Funding for continuation high schools if the school was opened after the passage of Proposition 13.	387	39%	34	\$0	\$20	\$823
PERS Reduction*	Reduces district funding based on the difference between the current district contribution for PERS employees and a specified base amount.	976	99%	10	\$0	\$106	\$2,147
Necessary Small Schools	Subsidizes very small schools, usually in small districts.	471	48%	110	\$0	\$191	\$14,464
Beginning Teacher Salary	Funding to increase minimum teacher salaries. Enacted in 1999 and 2000.	859	87%	87	\$0	\$29	\$1,179

Based upon this information, the Legislative Analyst's report concludes that most of the categories should be rolled into the per ADA revenue limit amount. The only exceptions are the necessary small schools, excess taxes, and the beginning teacher salary amounts from 1999 and 2000.

## **2. Categorical Funding**

Categorical education programs are programs created and funded to address specified needs. Since the funding is based on specific student needs in a school district, the amounts vary greatly between districts and the schools within a district. The number of categorical programs and the amount of their associated funding has increased over the years. The Sacramento Bee reported in February 2003 that the number of categorical programs was less than 40 a decade ago and has increased to a current number of 120. In addition, the amount of funding has increased from \$12 billion in 1988-89 to more than \$40 billion in 2001-02, increasing from 22 percent of the state budget for education to 31 percent.

### **Recommendations and Rationale for Revising Categorical Funding**

In recent years there have been a number of proposals to change the way California allocates funds to schools for specific needs.

The governor's 2004-05 January proposed budget recommended folding some categorical funds into the revenue limit. The rationale for these recommendations included the following:

- funding too restrictive
- funding allocations too complex
- parents, teachers, community members do not have effective input in the academic program and location decisions
- funding may not be reaching the students that need the support or may not be spent wisely

The Legislative Analyst's Office has prepared several reports on categorical funding. Some of the reasons for reforming categorical funding as stated in these reports are:

- **No conclusive evidence on the success of categorical programs.** Most programs are never evaluated. Evaluations that have been conducted have offered largely inconclusive evidence of programs' success or failure.
- **State rules restrict needed local flexibility.** Complex and detailed program requirements in some programs reduce the flexibility needed by schools to maximize the impact of funds on improving student achievement.
- **Fragmentation of local programs.** Without a local strategy for integrating categorical programs with the basic educational program, process requirements of the categorical programs shape local responses rather than the needs of students.
- **Funding formulas create negative incentives.** Some categorical programs create financial incentives that encourage schools to act in ways that are not in the best interests of students
- **Blurred accountability for meeting student needs.** Creating separate programs for specific student needs creates confusion about who is responsible for improving student achievement.

The Bureau of State Audits has also been critical of the current approach to categorical programs/funding, as the process defines no coordinated oversight or accountability for the funds. Others have stated that additional administration costs are created when there are separate funding sources with their specific rules.

### **3. Mandates**

State mandates is another area receiving closer scrutiny. A number of different groups are asking for reform, including the Joint Legislative Audit Committee, the Legislative Analyst's Office, the Bureau of State Audits, and the State Controller's Office.

In 1979, the voters of California approved Proposition 4, a constitutional amendment requiring the state to reimburse school districts when it "mandates" a new program or higher level of service. Currently, there are approximately 60 mandates for school districts. The state has deferred payment of mandates to school districts for 2002-03, 2003-04, and 2004-05. Nearly \$1 billion has been paid to schools in the past five years and it is estimated that by the end of 2004-05, \$1.6 million will be owed to school districts for unpaid claims.

Below are comments prepared by the Legislative Analyst's office as to why they feel there is a need for mandate funding reform:

- The Legislature should have access to mandate cost and other information during the legislative process. State agencies also should have assistance during the development of regulations.
- The body charged with making mandate determinations should be reconstituted so that all parties view it as objective.
- State agencies should actively participate in the mandate determination process, ensuring that state views and interests are documented and presented.
- Local governments should have some recourse to reduce their fiscal liabilities if the state does not fund mandates.
- The mandate determination process should be timely, with the Legislature learning of new mandates and their costs before or shortly after the mandate is established.
- The mandate claims process should be simple, credible, timely, and easy to audit.
- Whenever possible, claims should reflect unit cost methodologies rather than open ended claiming.
- Mandate determination and claiming procedures should be updated as needed to reflect modern conditions, laws, and court rulings.

The State Controller's Office instruction manual for 2003-04 is over 700 pages.

To give readers a sense of what kinds of mandates school districts deal with on a regular basis, the chart of mandates has been included on the next page.

<b>Mandates for School Districts</b>			
<b>Chapter</b>	<b>Title</b>	<b>Chapter</b>	<b>Title</b>
77/78	Absentee Ballots	1423/84	Juvenile Court Notices II
818/91	AIDS Prevention Instruction	1117/89	Law Enforcement Agency Notification
778/96	American Government Course Document Requirements	284/98	Law Enforcement College Jurisdiction Agreements
448/75	Annual Parent Notification III	126/93	Law Enforcement Sexual Harassment Training
98/94	Caregiver Affidavits	486/75	Mandate Reimbursement Process
781/92	Charter Schools	498/83	Notification of Truancy
917/87	COE Fiscal Accountability Reporting	1306/89	Notification to Teachers: Pupils Subject to Suspension or Expulsion
961/75	Collective Bargaining	641/86	Open Meetings Act/Brown Act Reform
736/97	Comprehensive School Safety Plans	1284/88	Parent Classroom Visits
784/95	County Treasury Oversight Committee	465/76	Peace Officers Procedural Bill of Rights
588/97	Criminal Background Checks	875/85	Photographic Record of Evidence
1659/84	Emergency Procedures: Earthquakes and Disasters	64097	Physical Education Reports
1659/84	Emergency Procedures, Earthquake Procedures, and Disasters and Comprehensive School Safety Plans	975/95	Physical Performance Tests
650/94	Employee Benefits Disclosure	965/77	Pupil Classroom Suspension: Counseling
1253/75	Expulsion of Pupils: Transcript Cost for Appeals	668/78	Pupil Exclusions
36/77	Financial and Compliance Audits	1208/76	Pupil Health Screenings
498/83	Graduation Requirements	309/95	Pupil Residency Verification and Appeals
1184/75	Habitual Truant	1253/75	Pupil Suspensions, Expulsions, and Expulsion Appeals
1120/96	Health Benefits for Survivors of Peace Officers & Firefighters	1107/84	Removal of Chemicals
1176/77	Immunization Records	1463/89	School Accountability Report Cards
172/86	Interdistrict Attendance Permits	100/81	School District Fiscal Accountability Reporting
172/86	Interdistrict Transfer Requests: Parents Employment	1347/80	Scoliosis Screening
161/93	Intradistrict Attendance	828/97	Standardized Testing and Reporting
783/95	Investment Reports	1249/92	Threats Against Peace Officers

Studies have found significant differences between districts for the same type of claim. The State Controller’s office has increased the number of audits on mandates. The Legislative Analyst’s Office believes claims may be overstated by as much as 25 percent.<sup>8</sup> Below is a chart that shows the amount received on a per ADA basis.

School District Claims Per ADA for Proposition 98 Mandates	
1998-99 Through 2000-01	
Average Amount Per Year*	Number of Districts
\$0-\$25	618
\$26-\$50	252
\$51-\$100	84
\$101-\$200	23
\$201-\$300	5
Above \$300	3
Total	985
*Claims do not reflect amounts actually reimbursed by the state.	

In April 2004, the Assembly Special Committee on Mandates reviewed 28 education mandates. They have also begun reviewing the mandate process itself. The Legislative Analyst’s Office, Department of Finance, and State Controller’s Office were invited to offer their comments. The Legislative Analyst has recommended changes, including the elimination of reimbursements for any requirements that the federal government has recently imposed with the No Child Left Behind Act. The Department of Finance wants to limit reimbursement to a minimum level, set up a cost-effective method, and eliminate any reimbursements for time that was redirected.

**Rethinking How California Funds Its Schools**

In May 2004, EdSource published a twenty-page report, *Rethinking How California Funds Its Schools*. The first half of the report talks about the effect of the *Serrano* decision and Proposition 13 on the funding for California schools. It also notes that the Public Policy Institute of California’s 2003 report titled *High Expectations, Modest Means* shows that California

- has 30 percent less staff per 1000 students than the national average
- spends 22 percent on K-12 while other states average 24.6 percent
- schools average 17.8 students per 100 residents compared to 16.5 in other states.

The second half of the EdSource report discusses in more depth some options that are being considered as California rethinks how it funds our public schools.

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<sup>8</sup> LAO, *Mandates: Mounting Liabilities and Need for Reform*, February 2004