

Some BASICS on SCHOOL FINANCE

This is a primer

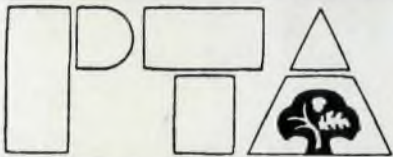
It is a simple text on public school finance in two parts:

Part I Operation Funds

Part II Building Funds

It does not contain all the facts nor all the answers. The district system and the school finance plan in California is much more complex than is suggested here. However, if you understand the principles presented herein, you will have little difficulty understanding more technical materials on

Financing Public Education in California



CALIFORNIA CONGRESS OF PARENTS AND TEACHERS, INC.
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PART I OPERATIONAL EXPENSE

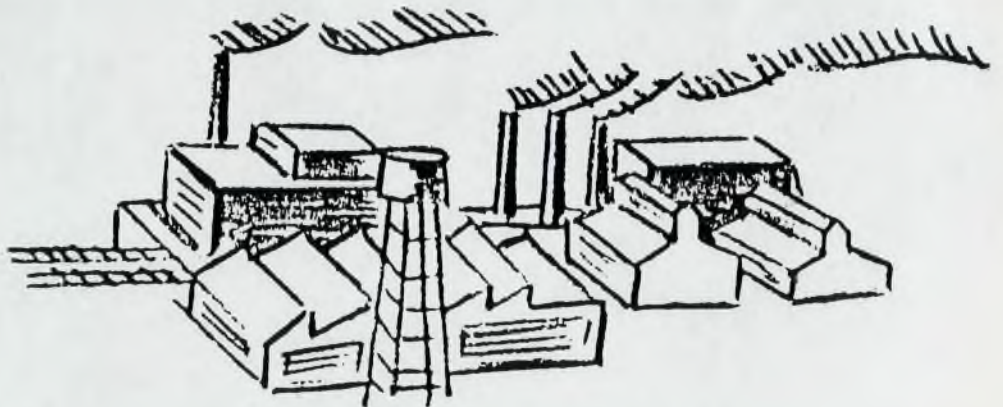


Once upon a time...

When America was young and fathers worked in the same town where they reared their families, financing public schools by taxing property was simple.

Now, frequently parents work in one community and rear their children in another. In those areas where there is much industrial and commercial development, there are usually fewer children. This means there are many tax dollars per child. In areas where there are mostly homes, there are many children and fewer tax dollars per child. Consequently the tax money for schools is not where most of the children are.

In California efforts are continually made to equalize educational opportunity for all children. Currently funding for schools comes from local property taxes, the State's general fund and the federal government.

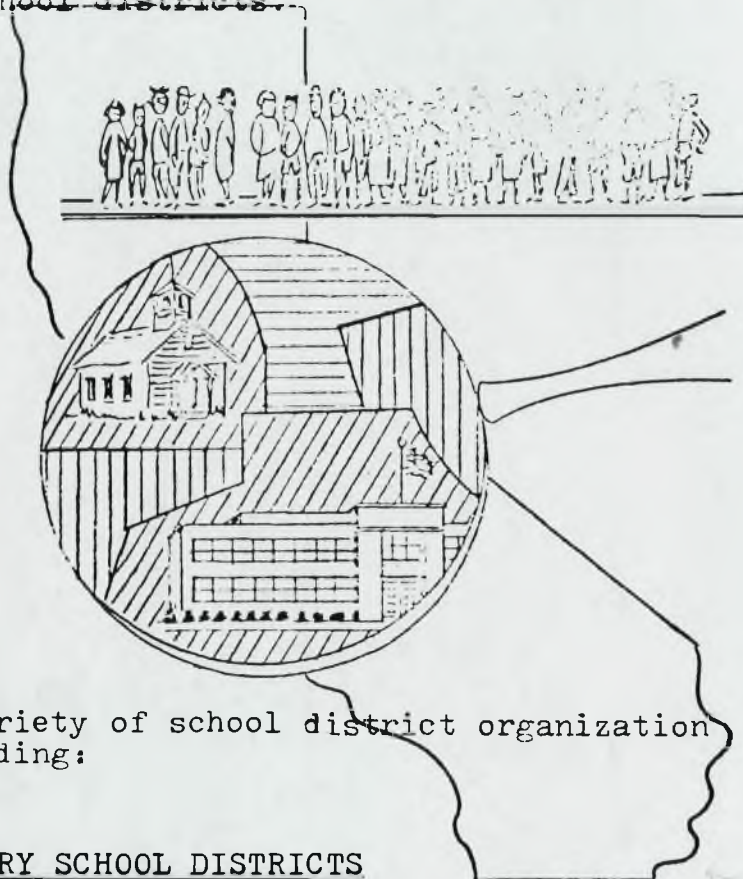


Let us see

Why there are problems

Providing an equitable education for all of California's pupils is difficult because:

- (1) Both in geography and student population California is large. There are more than 4,000,000 pupils in nearly 1100 school districts.



- (2) There are a variety of school district organization patterns including:

- ELEMENTARY SCHOOL DISTRICTS

K - 6 (8) grades

- HIGH SCHOOL DISTRICTS

(7 - 8) 9 - 12 grades

- UNIFIED SCHOOL DISTRICTS

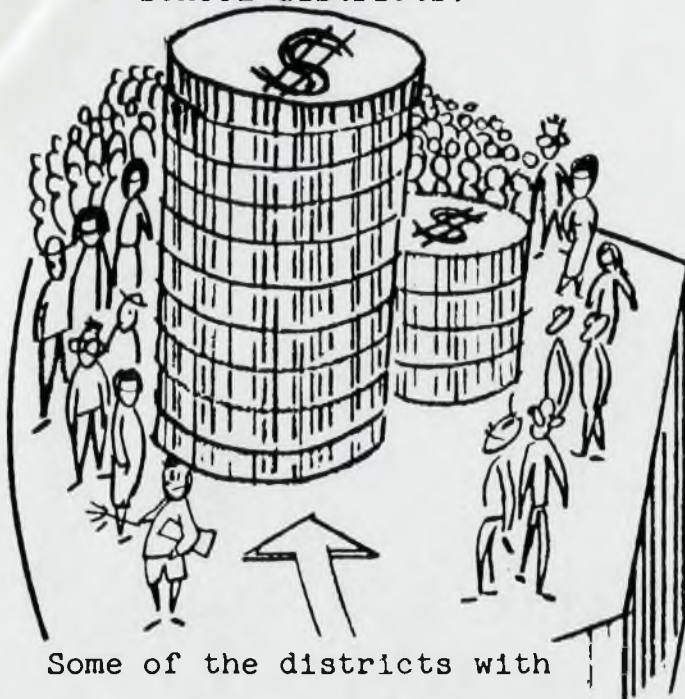
K - 12 grades

- COMMUNITY COLLEGE DISTRICTS

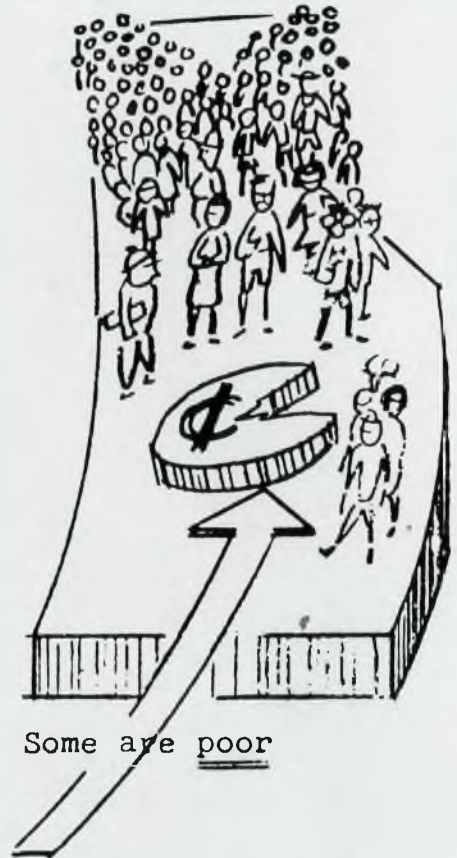
13 - 14 grades

And

(3) There is great variation in the SIZE and WEALTH of school districts.

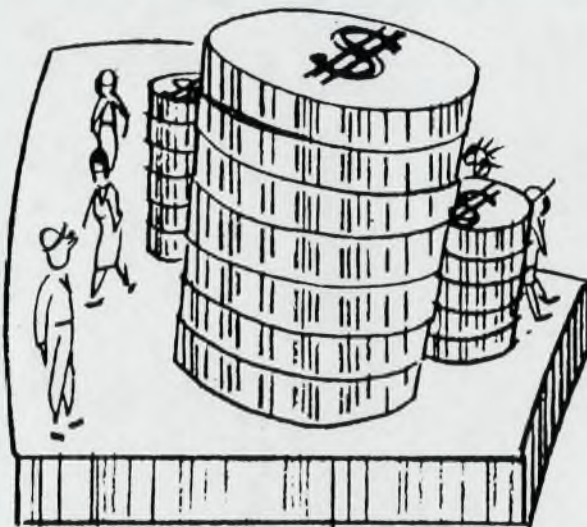


Some of the districts with thousands of pupils are wealthy

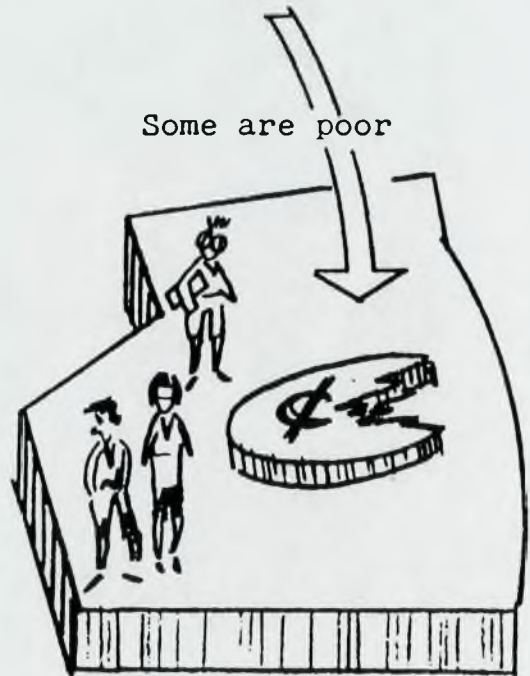


Some are poor

Some of the districts with five or six pupils are wealthy



Some are poor



And there are all shades of size and wealth in between !

And

(4) There are some special problems requiring added dollars.

- RURAL SCHOOLS

where there may be fewer pupils per teacher and students must be transported many miles.

- URBAN SCHOOLS

where there is great mobility of students, extra insurance costs, greater need for security measures, etc.

- SPECIAL EDUCATION PROGRAMS FOR PHYSICALLY HANDICAPPED AND OTHER SPECIAL STUDENTS

which require smaller classes and special equipment.

(5) There is a problem related to the source of tax dollars for schools.

In one recent year approximately \$4 billion in local property tax revenue was raised to support local school districts.

In that same year the following general fund revenue was raised from the State's MAJOR income sources:

\$2.5 billion from sales tax
2.0 billion from personal income tax
.9 billion from corporate income tax

It is clear what would have to happen to sales and personal or corporate income taxes if all or part of the schools' portion of the property tax were replaced by these taxes.

Important to

It is not the dollars alone that is our concern but what those dollars provide in:

- ① Quality teachers
- ② The number of students in each classroom
- ③ Quality and quantity of textbooks, library books and other instructional supplies
- ④ Healthful and well-kept schools and grounds
- ⑤ Quality counseling and other supportive services

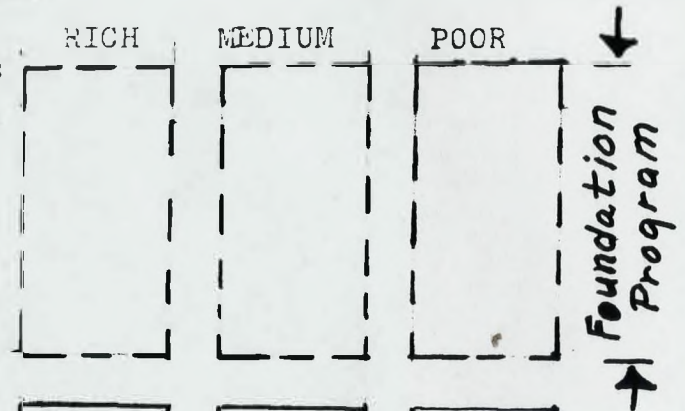
Generally, these represent the foundation of education we want for ALL children.

How the State has helped

The State of California has recognized the many problems in providing a basic education in an equal manner for its millions of students. So for many years the State has assisted local school districts by providing dollars from its general fund to finance a basic foundation program. This state aid has come in the form of basic aid and equalization aid.

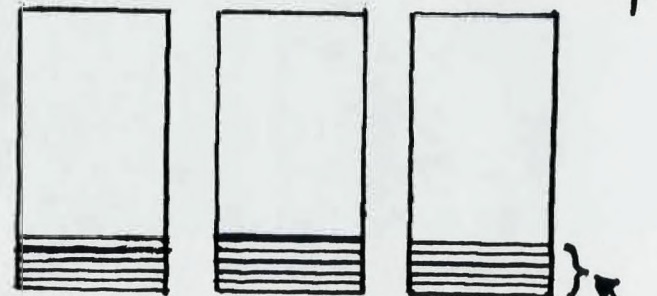
So to explain we start with this

Foundation Program
for every child in every school district - rich, medium or poor.



No matter how rich or how poor the local district is, the State contributes the same basic amount to every child in each district. We call it

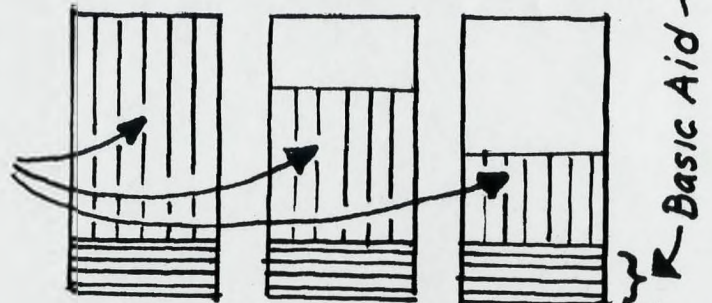
Basic Aid



Next, the local school district raises an amount which is computed by a uniform tax rate. This is the

District Share

This is great for a wealthy district and small for a poor district.

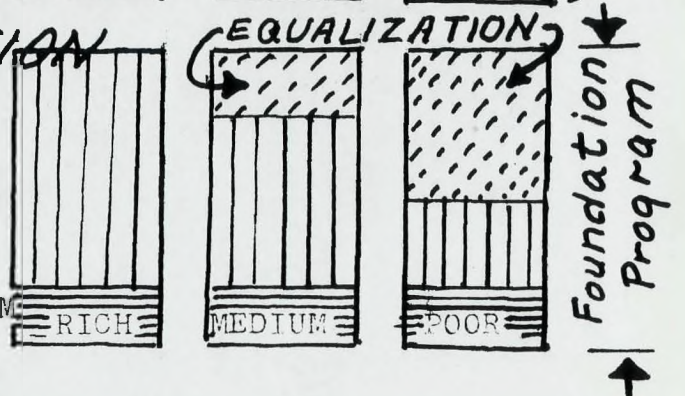


NO EQUALIZATION

If what the State apportions in BASIC AID plus the DISTRICT SHARE is not enough to equal the FOUNDATION PROGRAM, the State apportions enough more in

Equalization Aid

to make up the FOUNDATION PROGRAM



Summarized



- ① The State determined what it cost per pupil to finance an acceptable education program. Foundation Program
- ② The State apportioned to all districts \$125 per pupil - rich and poor districts alike. Basic State Aid
- ③ For each district the amount that would be raised by a uniform tax levy was computed. District Share
- ④ If what the State apportioned in basic aid together with the district share was not enough, the State apportioned enough more in..... Equalization Aid

. . . to equal the Foundation Program

Foundation Program = Basic State Aid + District Share + State Equalization Aid (if needed)

= = = = =

The idea was good but the Foundation Program did not keep up with actual costs of education. The above formula was "bandaided" as local school districts were forced to levy "permissive override" taxes and the voters approved general fund override tax rates. The formula then looked like this:

Expenditure Per Pupil = Foundation Program + Permissive Overrides + Voted Overrides

Thus, the property tax again became the major source of revenue for the schools!

So more problems....

Along came S.B. 90 of 1972

In the passage of SB 90 the State recognized two very basic problems existed. Property taxes were too high and the Foundation Program was too low. Thus, the bill provided considerable property tax relief, raised the Foundation Program and did away with most of the permissive override taxes. Instead of limiting the tax rate a school district could levy without going to the people it provided a revenue limit per pupil based on the school districts cost per pupil in 1972-73 (to be increased annually by a percentage). If this number of dollars per pupil proved inadequate, the school district could go to the people and ask for a revenue limit increase.

The SB 90 Formula

Start with the NEW Foundation Program

The State determined what it cost in the base year to finance an acceptable education program.

New
Foundation
Program

The State apportions to all districts \$125 per pupil - rich and poor alike.

Basic State
Aid

For each district the amount that would be raised by a new uniform tax levy is computed.

District
Aid

If what the State apportions in basic aid, together with the district aid is not enough, the State apportions enough more in.

Equalization
Aid

. . . . to equal the

New
Foundation
Program

Now the big change

Use the school district revenue per pupil in 1972-73

Add the allowable* percent for inflation

. . . . to equal the

Total Guaranteed
Revenue/Pupil

The amount above the Foundation Program must be funded by the district through property taxes.

Thus.... Total Revenue Foundation Added
 Per Pupil — Program = District Aid

*Poor districts more, rich districts less

The new formula now reads

$$\begin{array}{ccccccc} \text{District} & & \text{Basic} & & \text{Equalization} & & \text{District} & & \text{Added} \\ \text{Revenue Limit} & = & \text{Aid} & + & \text{Aid} & + & \text{Aid} & + & \text{District} \\ \text{Per Pupil} & & & & & & & & \text{Aid} \\ & & \underbrace{\hspace{10em}} & & & & & & \\ & & \text{Foundation Program} & & & & & & \end{array}$$

Only the people can vote to exceed this REVENUE LIMIT.

More school finance woes...
The following are seen as major problems in the SB 90 finance formula:

- The annual percentage increase allowed has not kept pace with inflation.
- The decline in enrollment in many districts has been faster than the normal turnover of teachers, causing dismissal problems and a greater percentage of teachers high on the salary schedule.

What about your school?
What is the REVENUE LIMIT in your schools?

(Your administrator will be happy to furnish the figures.)

| | |
|-------------|-----------------------------|
| | REVENUE LIMIT PER A.D.A. |
| ELEMENTARY | |
| HIGH SCHOOL | |
| UNIFIED | |

Does your district receive other funds? _____

Are these for special purposes? _____

And now there is Serrano!

Serrano - What does it mean?



The Serrano vs Priest suit filed in 1968 challenged the constitutionality of California's school financing system and will undoubtedly have great impact on how schools are funded in the future.

The plaintiffs in that case said the financing system relies heavily on the local property tax, there are great differences in money spent per pupil from district to district. These differences have resulted in unequal educational opportunities for students in California.

For example, at the time the suit was filed, Beverly Hills was able to spend \$1600 per pupil for a \$3.00 tax rate; yet Baldwin Park was only able to spend \$700 per pupil and its tax rate was nearly \$6.00. Expenditures per pupil in California ranged from \$4000 to \$500.

It was these great differences that the Court declared unfair. Because schools are the constitutional responsibility of the State, the Court declared that the Legislature must eliminate both the spending differences and the tax rate differences that are caused by the current school financing system. The Court further declared that this must be accomplished by 1980 and if there did not appear to be definite legislative action to that end, the court would do it itself.

While the Serrano case was being tried, SB 90, a major school finance bill, was approved by the Legislature. It was a step in the right direction but the Court found it fell short of the reform needed.

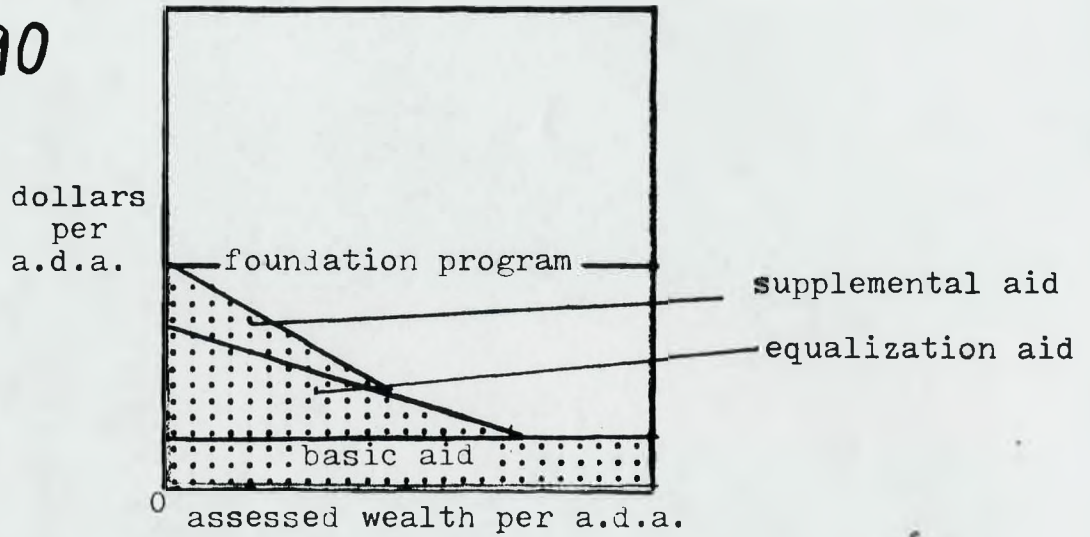
The Court suggested several ways the necessary changes could be accomplished. These included: (1) a state school system, (2) reorganization of the 1000+ school districts into 500 of equal wealth, (3) keeping current districts but pooling the taxes statewide of commercial and industrial property (split assessment), (4) "power equalizing" where school districts could choose to spend at different levels, but the tax rate would be the same whether the school district be rich or poor, with the State making up the differences for the poorer districts and collecting excess property tax revenues raised in the wealthy, (5) vouchers, or (6) some combination of these.

Significant in the Serrano decision is the emphasis on quality based on program offerings. Wilson Riles, State Superintendent, has stated: "The Serrano decision should be approached as an opportunity to bring excellence to all of our schools. The great danger that we should be aware of is that Serrano could be used to spread poverty among our districts and make every district equally poor."

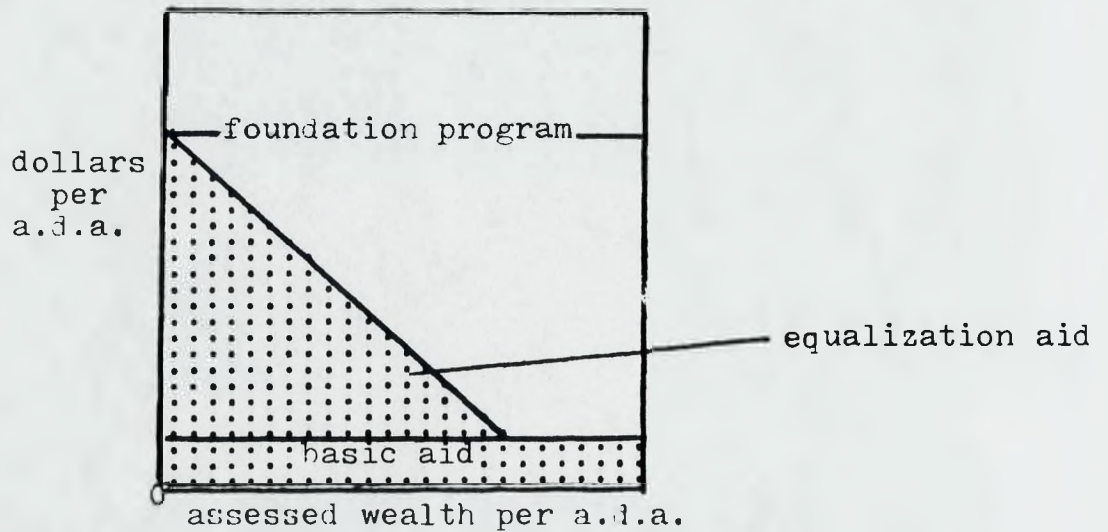
Compare

IF WE WERE TO DRAW GRAPHS OF SCHOOL FINANCING SYSTEMS - PRE SB 90, SB 90 and SERRANO CONCEPT - THEY WOULD LOOK LIKE THIS:

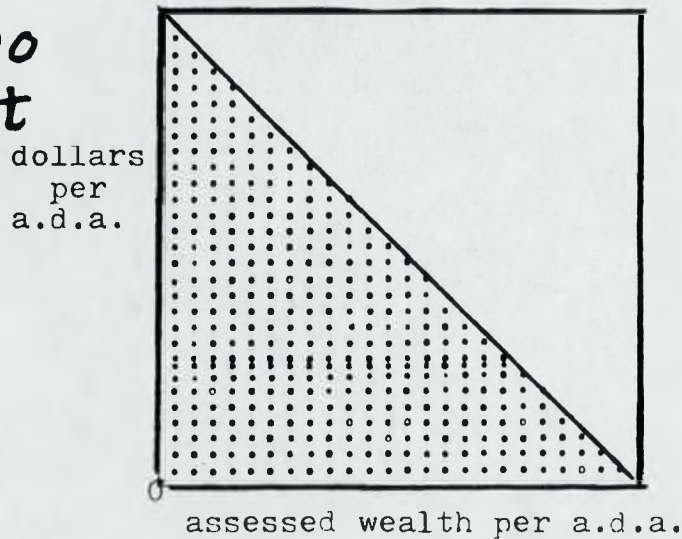
Pre SB 90



SB 90



Serrano Concept

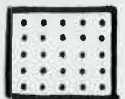


KEY

DISTRICT
TAX FUNDS



STATE
MONEY



Some criteria - - - -

With school financing problems still unsolved, with the Serrano decision motivating legislative action, the California State PTA has approved the following criteria by which PTA will judge school finance legislation.

Such legislation should provide:

1. For enough revenue from both state and local school district sources for a quality educational program for every pupil in the public schools in California.
2. For the added costs as may be required by students with special needs - handicapped, gifted, disadvantaged, etc.
3. For unique differences in school district needs as may be found in urban or rural areas so as to insure quality educational programs for students residing in all areas.
4. Annual automatic adjustments in school revenues consistent with the official Consumer Price Index.
5. For no mandated reduction of current local educational programs.
6. For wealth or power equalization so that for a given tax effort each local school district will receive the same revenue.
7. Some statewide pooling of local property tax revenues.
8. Annually from the State at least 50% of funds necessary to finance the current cost of education for regular pupils from sources other than the property tax and exclusive of federal funds.
9. School district revenue based on school membership or enrollment rather than average daily attendance.
10. For a "circuit breaker" so that people with low incomes who live in high wealth school districts will not be hurt by resulting higher property tax rates.
11. A tax structure that is strong and broadly based with the portion expended locally remaining under local control as long as the best interests of children are served.
12. For a phase-in period so as to maximize sound planning and minimize any trauma caused by necessary changes in tax sources or procedures.

PART II BUILDING FUNDS

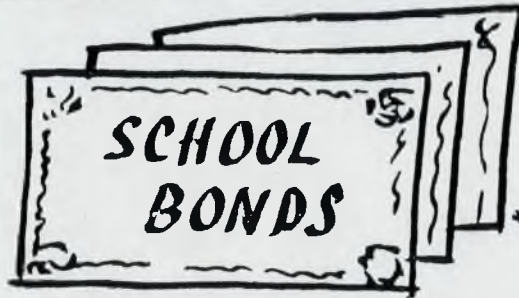
Bonds...

If a school district is wealthy enough, it may build its schools from local district funds. Many school districts, however, are not in this category.

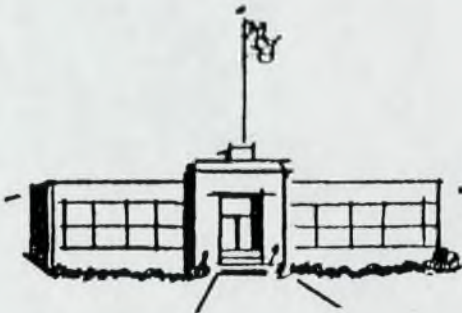
WHAT DO MOST SCHOOL DISTRICTS DO?

They finance their buildings over a long period of time. This could be compared with the financing of a home under a long term mortgage plan. Instead of a mortgage, school districts sell BONDS to get money to build the schools they need.

School Districts sell



to get money



to build schools

FACTS ABOUT BONDS

The amount of bonds a school district may sell is limited by law.

School districts must have the consent of $\frac{2}{3}$ of the voters to issue bonds.

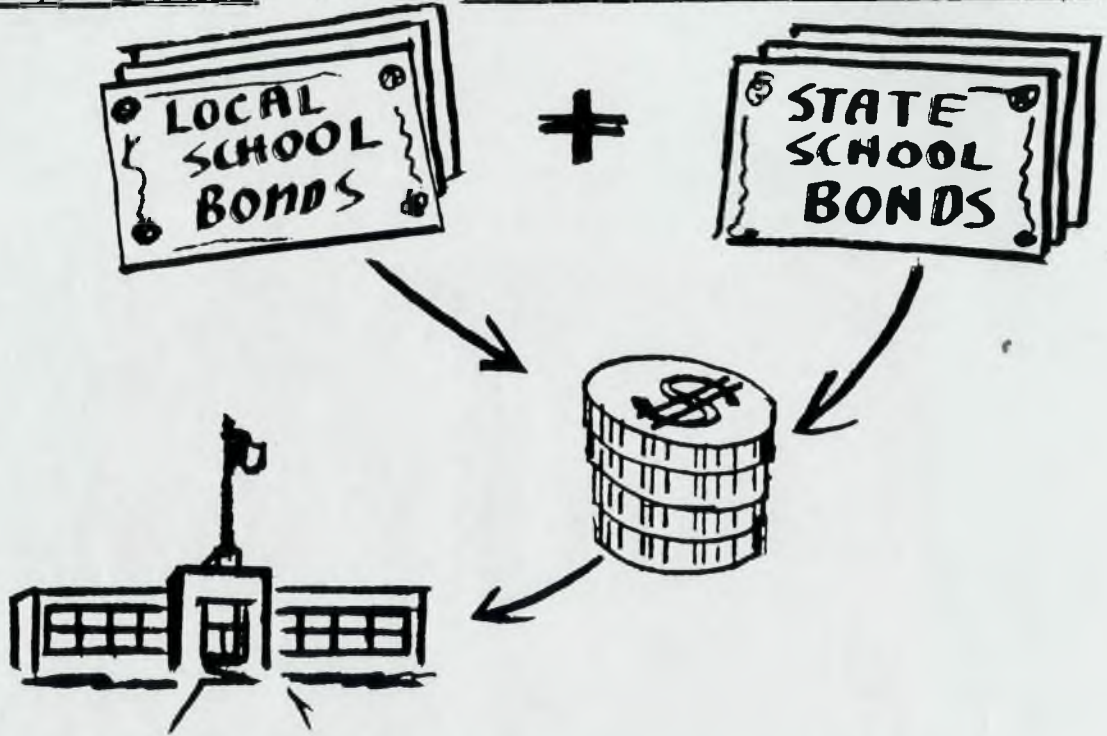
Bond money may also be used for sites, site improvement, furniture and equipment.

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State School Building Aid

In areas where school population growth is great, a school district may not have enough money from local school bonds to build the needed schools. These districts may apply for an additional loan from the State School Building Aid Fund.

LOCAL SHARE + STATE AID = SCHOOLS



FACTS ABOUT STATE SCHOOL BUILDING AID

In order to qualify for this building aid money, the local school district must be bonded to capacity.

Local school bonds and State school bonds are repaid over a long period of time.

School districts must justify their need for a State Building Aid Loan.

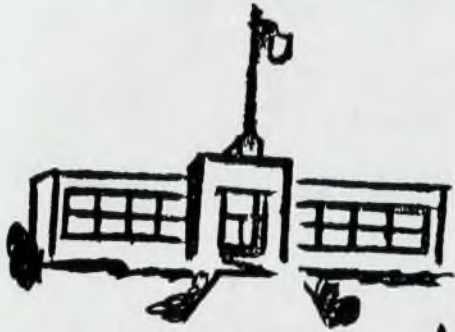
School buildings built with State money must meet certain architectural and cost requirements.

School districts must have consent of 2/3 of voters to accept State Building Aid Loan.

State Building Aid funds may be used to complete site development, to purchase sites, furniture and equipment.

And Still Another Way

It is a lease-purchase arrangement



← a non-profit corporation builds

School district leases from

with special purpose tax

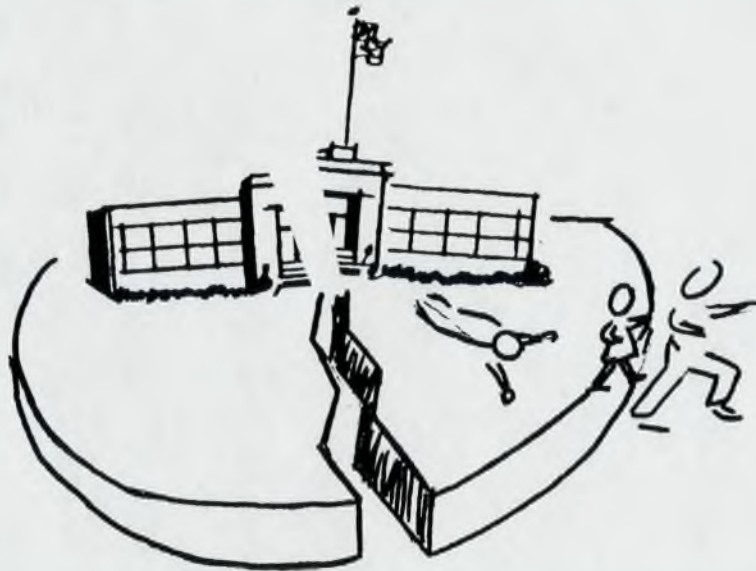


- LEASE-PURCHASE method of financing school construction requires the approval of a special tax by a SIMPLE MAJORITY of the voters.
- The ballot for the special tax must identify the site and the building and the length of time the tax is to be levied.
- A non-profit corporation builds the school, finances the construction through the sale of special bonds and leases the buildings to the school district.
- The buildings become the property of the school district at the end of the lease period.
- This method may cost more than regular bonds but this cost may be offset by the delay often required for passage of bond measures requiring a 2/3 vote.

Quake Safe Buildings

Following the Long Beach earthquake in 1933, the Legislature passed the Field Act, a measure to insure the safety of school buildings.

Districts are now required to have their schools meet Field Act standards. This may require alterations to present buildings or it may mean that substandard buildings must be torn down and replaced.



Financing Field Act required construction can be accomplished by:

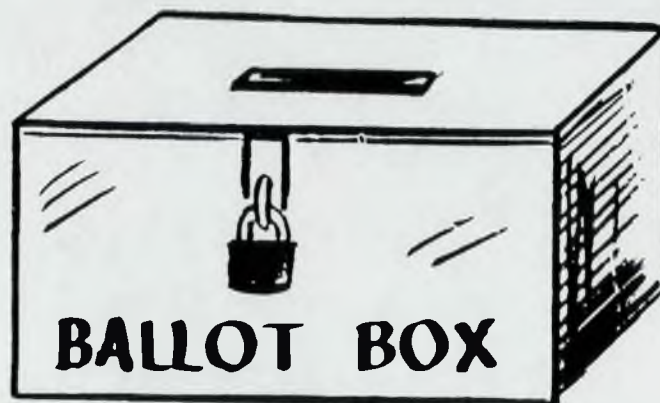
1. Using general fund money, if a school district is wealthy enough.
2. Levying a special and limited tax.
3. Securing the consent of the voters to sell bonds. Unlike other school bond elections, Field Act compliance bond elections require only a simple majority for approval.
4. State School Building Aid is also available.

The people must say
"OKAY!"



SIMPLE MAJORITY
VOTE NEEDED

A 2/3 MAJORITY
VOTE NEEDED



A GLOSSARY OF SELECTED TERMS

| | |
|----------------------------------|---|
| <u>A.D.A.</u> | Average daily attendance. One a.d.a. is generated by the attendance of one child 175 days in a school year. Absence for illness does not count as an absence in this case. |
| <u>A.D.M.</u> | Average daily membership - a proposed method of calculating a.d.a. based on enrollment. It is believed to reflect actual costs better than a.d.a. |
| <u>Assessed Valuation</u> | The value of property as it is assessed on the records of the county assessor. Property is assessed at 25% of market value. It is the basis for computing tax rates for local government including school districts. |
| <u>Assessed Value per A.D.A.</u> | Assessed value per child, a measurement of school district wealth determined by dividing district assessed valuation by the total a.d.a. |
| <u>Basic Aid</u> | The minimum amount that any district receives for State support at \$125 per a.d.a. - See "foundation program." |
| <u>Bonds, School</u> | Bonds are certificates of indebtedness in writing. Bonds are somewhat to a school district as a mortgage is to a home. |
| <u>Categorical Aid</u> | Funds from specific local and county taxes, state and federal sources which must be used for specific educational programs: e.g. handicapped, Title I, bilingual-bicultural, etc. |
| <u>District Revenue Limit</u> | The income from state and local sources per a.d.a. (exclusive of categorical aid) above which a district may not go without the vote of the people. |
| <u>District Support or Aid</u> | The financial assistance received from local property taxes. |
| <u>Equalization Aid</u> | See "foundation program." |
| <u>Field Act</u> | A measure approved by the Legislature requiring specific safety standards in the construction of schools. |
| <u>Foundation Program</u> | The amount of money for each a.d.a. guaranteed and determined by the Legislature. The State's contribution to the Foundation Program will vary inversely to the wealth of the local district - more going to poorer districts in the form of <u>Equalization Aid</u> . All districts, rich and poor, receive <u>Basic Aid</u> . |

A GLOSSARY OF SELECTED TERMS
(continued)

| | |
|---|--|
| <u>Low Wealth District (High)</u> | A community with many homes and children but with little business and industry, thus small tax base per child. May NOT be related to the wealth of the families living in the community. A HIGH wealth district has much business and industry and few children, thus a high tax base per child. |
| <u>Permissive Override Taxes</u> | Usually refers to a group of override taxes authorized by the Legislature and levied for specific purposes by a school board without going to the electorate. |
| <u>Power Equalization</u> | A method of equalizing the revenue derived from a given property tax rate with poor school district income brought up to the given level by added dollars from the State and pooling of excess income from the wealthy districts. |
| <u>School Tax Rate (general purpose)</u> | The number of dollars per \$100 assessed valuation needed to raise the revenue limit per a.d.a. The school tax rate(s) listed on property tax bills include this rate plus other lesser school levies for EACH school district in which the property is located. |
| <u>SB 90</u> | Senate Bill 90 of 1972, a major school finance bill which changed the method of figuring income for support of school programs in local districts. |
| <u>Statewide Property Tax (for schools)</u> | (Not now legal) A tax rate levied on property, statewide, then pooled and distributed on some equitable basis to local school districts. |