

The Distribution of K-12 Education General Purpose Funds

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INTRODUCTION

State funding in K-12 education is divided into two types: revenue limit and categorical program funding. Revenue limits provide a source of general purpose funds—money districts may use at local discretion for the support of local programs. Categorical programs target funds for a specific state program or activity.

The purpose of this report is to examine how well our existing system of revenue limits serves the state in creating a reasonably uniform distribution of general purpose funds. For this report, we focus primarily on funding provided through the revenue limit calculation—the primary mechanism for allocating general purpose dollars. This calculation provides a set amount of “base” funding for each student as well as adjustments to the revenue limits that reflect legislative actions over the last quarter of a century. These adjustments sometimes exhibit characteristics of both general purpose and categorical funding. For that reason, we begin with a review of the elements of revenue limit funding.

ELEMENTS OF THE REVENUE LIMIT FORMULA

Revenue limit funding is the single largest source of support for K-12 districts, accounting for \$28.1 billion in 2002-03, or about two-thirds of all state and local property tax revenues. Revenue limits were initially developed 30 years ago as a means of constraining growth in high revenue districts. After Proposition 13, the state used the revenue limit system to establish state funding levels.

Since Proposition 13, the Legislature has adjusted revenue limits in several ways. Funds have been added to equalize base revenue limits—that is, reduce differences in the amounts that similar types of districts receive. In addition, the Legislature has allowed districts to permanently add specific categorical funds to base revenue limits. For instance, in the 1990s, districts receiving Supplemental Grants—a categorical block grant—were allowed to permanently fold these categorical funds into their base revenue limits.

The Legislature also has used the revenue limit apportionment process as a means of funding specific state initiatives. For instance, in 1983, the Legislature created an incentive program for districts to extend the length of the school day and school year. For districts electing to comply with this incentive, a new adjustment to each district’s revenue limit formula was added.

Figure 1 displays the major elements of the revenue limit formula and the amount distributed to districts through each part of the formula. As the figure illustrates, there are 11 different elements that affect district funding levels. One of these adjustments actually *reduces* district funding levels.

Figure 1
Major Elements of the District Revenue Limit Formula

2002-03
(In Millions)

Program	Description	Total Cost
Base Revenue Limit	Pays for the basic costs of educating a student.	\$26,893.0
Necessary Small Schools	Subsidizes very small schools, usually in small districts.	102.4
Basic Aid	Constitutionally required minimum funding for districts that receive little or no state revenue limit funding.	17.2 ^a
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.	171.8
Meals for Needy Pupils	Funding in-lieu of property tax revenues that were approved by voters prior to Proposition 13.	166.6
SB 813 Incentive Programs	Funding to increase the length of the school day and school year and to increase minimum teacher salaries. Enacted in 1983.	1,185.6
Minimum Teacher Salary Incentive	Funding to increase minimum teacher salaries. Enacted in 1999 and 2000.	85.0
Interdistrict Attendance	Funding for an interdistrict attendance program affecting two districts.	0.5
Continuation Schools	Funding for continuation high schools if the school was opened after the passage of Proposition 13.	33.7
Unemployment Insurance (UI)	Reimbursement for district UI costs in excess of the district's 1975-76 UI costs.	28.6
Public Employees' Retirement System (PERS) Reduction	Reduces district funding based on the difference between the current district contribution for PERS employees and a specified base amount.	-545.1
Total		\$28,139.3

^a This funding was eliminated as part of the 2003-04 Budget Act by counting state categorical funds as meeting the constitutional requirement.

In 2002-03, these 11 elements provided \$28.1 billion to school districts, or an average of about \$4,900 per average daily attendance (ADA). In the next section, we review these funding elements in more detail. Specifically, we examine the purpose of each adjustment, how funds are distributed to districts, and whether these funds represent general purpose support or categorical funding.

Revenue Limit Funding Elements in Detail

The funding elements that are part of district revenue limits support a variety of different purposes. Depending on how “general purpose” funds are defined, most or only a few of these elements provide funds that districts can use at their discretion. We

developed two tests for determining whether the elements—from our perspective—should be considered general purpose funding:

- First, is the funding free of any state-imposed conditions on districts that accompanies the money? If the answer is “yes,” the funds are clearly general purpose in nature.
- Second, if the answer is “no” to the first test, do all (or virtually all) districts participate in the program supported by the funds? If the answer to this question is yes, the activities are, in essence, a part of the base program for K-12 schools in California and the supplemental funds can be considered general purpose.

While the purpose of this report is to review general purpose funding through the revenue limit, it is important to remember that there is no clear dividing line between revenue limits (providing general purpose funds) and categorical funds (providing targeted program funds). Several revenue limit adjustments provide funds for specific district programs. Conversely, a number of categorical programs also would meet the test of universal participations such as the instructional materials program, and could be defined as general purpose in nature. A review of categorical programs, however, goes beyond the scope of this report.

Using our two-part criteria, we briefly review each element of the revenue limit system to determine whether the adjustment should be considered general purpose revenues.

Base Revenue Limits

The base revenue limit is the primary source of general purpose funding. Districts may use these funds for any purpose. While all 983 school districts in the state are assigned a revenue limit, not all districts actually receive revenue limit funding. For example, districts that are funded entirely through the Necessary Small School funding program do not receive base revenue limit funds. Figure 2 displays selected data on base revenue limits.

District revenue limits vary considerably,

Figure 2	
Base Revenue Limits	
<i>2002-03</i>	
Free of conditions:	• Yes.
Number of districts funded:	• 983
Average (per-ADA ^a):	• \$4,654
Maximum (per-ADA):	• \$8,164
Minimum (per-ADA):	• \$4,223
Funding formula:	• Each district has a unique revenue limit, based on a variety of historical factors.
Other comments:	• The base revenue limit is the amount typically used to measure the fairness of the distribution of state funding to districts. Past equalization efforts have focused on reducing district differences in base revenue limits.
^a Average daily attendance.	

ranging from \$4,223 to \$8,164 per pupil. The average of all districts in 2002-03 is \$4,654. In comparing revenue limits, however, the state groups districts by size (large and small) and type (unified, high school, and elementary). These groupings were created by the Legislature in the 1970s and are based on the idea that some types of districts (small and high school districts) are more costly to operate than others (large and elementary districts).

Figure 3 displays selected data on the six size and type categories of revenue limits. The average revenue limit for the 258 large unified school districts is \$4,580 per pupil in 2002-03. The highest revenue limit for an individual district in this group is \$6,592—more than \$2,000 (44 percent) higher than the average. The lowest revenue limit for this size and type is \$4,424, or about \$156 (3.4 percent) below the average.

This pattern of the highest revenue limits being much higher than the average and the lowest revenue limits being only slightly below the average is repeated for most of the district groupings. This is because past efforts to equalize revenue limits increased district grants for lower-funded districts but did nothing to reduce grants in high-funded districts. As a result, revenue limits in most districts within each group fall within a narrow range around the average, and districts that are far from the average are high-funded districts.

Figure 3
The Distribution of Revenue Limits by Size and Type

2002-03

Size and Type	Number of Districts	Average Per ADA ^a	Highest		Lowest	
			Amount	Percent of Average	Amount	Percent of Average
Unified Districts						
Large (more than 1,500 ADA)	258	\$4,580	\$6,592	144%	\$4,424	97%
Small	69	4,930	6,176	125	4,459	90
High School Districts						
Large (more than 300 ADA)	87	\$5,232	\$6,187	118%	\$5,086	97%
Small	4	5,779	5,885	102	5,697	99
Elementary Districts						
Large (more than 100 ADA)	473	\$4,408	\$5,468	124%	\$4,223	96%
Small	91	5,138	8,164	159	4,309	84

^a Unweighted average per average daily attendance.

In general, school district base revenue limits are not as unequal as suggested by the data in Figure 3. Under the terms of the *Serrano v. Priest* lawsuit, the state ensures that base revenue limits in virtually all districts are less than about \$150 from the average of the appropriate size and type. While the very-high funded districts remain, most districts receive base revenue limits close to the average.

The size and type categories acknowledge that some schools and districts are more expensive than others to operate. For instance, certain fixed costs—such as a superintendent and school board—may mean that administrative costs are higher in small districts (on a per-pupil basis) than in large districts. The Legislature has not examined in many years whether the current size and type categories still make sense. The Legislature may want to review the rationale and funding levels for the six size and type categories of districts.

Conclusion. Base revenue limits should be included in the definition of general purpose funding.

Necessary Small School Funding

The Necessary Small School program provides support for districts that operate very small schools that are located in rural areas of the state. For elementary schools, funding is available for schools with less than 101 ADA; for high schools, funding is available for schools with up to 300 ADA. State law restricts Necessary Small School funding to relatively small *districts* that meet one of two tests. Specifically, districts with up to 2,500 ADA are eligible for these subsidies if (1) students who attend the small school would otherwise be required to travel relatively long distances from their home to attend school, or (2) geographic or other conditions (such as annual snowfall) make busing students an “unusual hardship.”

Figure 4 displays selected data for the Necessary Small School program. The program supports the

basic costs of educating students at these schools—that is, districts cannot claim base revenue limit funds for students attending a necessary small school. District reimbursement is based on a schedule that permits districts to hire up to a specified number of teachers depending on the size of the school. In 2002-03, 149 districts participated in the program, receiving an average per-student

Figure 4	
Necessary Small School Funding	
2002-03	
Free of conditions:	• Yes.
Number of districts funded:	• 149
Average (per-ADA ^a in the district):	• \$4,235 (elementary) • \$2,979 (high school)
Maximum (per-ADA in the district):	• \$11,167 (elementary) • \$14,464 (high school)
Minimum (per-ADA in the district):	• \$20 (elementary) • \$206 (high school)
Funding formula:	• Funding is based on the size of the small school and the number of teachers hired to educate students.
Other comments:	• Six districts received Necessary Small School funds based on a specific statutory authorization. These districts would not otherwise qualify for funds.
^a Average daily attendance.	

amount of \$4,235 for elementary schools and \$2,979 for high schools. (These latter figures are calculated as the average amount of funds for each student attending a district that receives funding for at least one necessary small school.)

These averages are deceiving, however. Forty-seven very small elementary districts (under 100 ADA) are funded entirely through necessary small school support—that is, they receive no revenue limit funds because all students in the district are in eligible small schools. These districts receive up to \$11,000 per ADA through the Necessary Small School program. On average, however, the 47 districts with necessary small schools receive \$6,600 per ADA, or about \$1,100 per ADA more than what they would have received through revenue limit funding.

The existing program raises several policy issues that the Legislature may want to review.

- The program subsidizes the operations of schools with as few as five students at a per-pupil cost of more than \$10,000. These students might be served much more economically through distance learning courses, such as those offered by several charter schools.
- The Legislature also may want to revisit issues such as the size of districts that should be eligible for funding and the definition of topographic or transportation-related requirements needed to qualify for the subsidies.
- Six districts receive small school funding through a specific statutory authorization. Without this authorization, these districts would not qualify for the program’s funding. The Legislature could eliminate these special appropriations or it could add the funds to the districts’ revenue limits, which would reduce the amount of equalization funds these districts would receive in the future.

Conclusion. The Necessary Small School program operates as an alternate funding model rather than as a supplement to base revenue limits. The program subsidizes the high operating costs of small schools in districts that lack the size to absorb the cost of the small school.

While the program provides general purpose funding to school districts, it may make sense to treat these small schools and small districts as a class that warrants special consideration. Later in this report, we analyze the amount of general purpose funds districts receive. Because of the large per-ADA funding amounts this program provides, we have included the small school subsidies as general purpose funds for these analyses. Should the Legislature consider revising the system of revenue limits, however, we would recommend treating these schools as a special group.

We would suggest a different treatment for the six “statutory” districts. We also included the small school funds for these districts as general purpose funds. Other large districts may also operate very small schools (and experience the same costs) but do not

receive Necessary Small School funds. Thus, for the six districts that do receive funding, the subsidies essentially result in an increase in general purpose funding. We would suggest that any legislative revisions to revenue limits could either eliminate these payments all together or fold the small school funds into the base revenue limits of these six districts.

Basic Aid

The California Constitution requires the state to provide at least \$120 per student or \$2,400 per district in support of K-12 education. This “basic aid” provision predates the passage of Proposition 13, when general purpose funding was supported primarily through local property taxes. Through 2002-03, this provision was interpreted to require the state to distribute a minimum amount of *general purpose* funding to districts. In 2002-03, 67 districts received basic aid payments because the state would have provided less than \$120 per ADA (or \$2,400 per district) through the revenue limit formula.

In 2003-04, the Legislature changed its basic aid policy, deciding that state categorical funds received by districts also would count towards the constitutional requirement. Few—if any—districts will receive these payments in the form of general purpose funding because virtually all districts receive more than \$120 per ADA in categorical funding.

Figure 5 displays selected data on basic aid payments in 2002-03. Almost all basic aid districts received \$120 per ADA, although the per-pupil amounts ranged from \$1 per ADA to \$150 per ADA.

Conclusion. In 2002-03, basic aid provided general purpose funding to districts. If the Legislature continues its 2003-04 policy of using state categorical funds to offset basic aid payments, however, it is unlikely that any district will qualify for these funds in the future.

Figure 5 Basic Aid Payments	
<i>2002-03</i>	
Free of conditions:	<ul style="list-style-type: none"> • Yes.
Number of districts funded:	<ul style="list-style-type: none"> • 67
Average (per-ADA ^a in the district):	<ul style="list-style-type: none"> • \$120
Maximum (per-ADA in the district):	<ul style="list-style-type: none"> • \$150 • One district received the \$2,400 district minimum.
Minimum (per-ADA in the district):	<ul style="list-style-type: none"> • \$1 • Some districts received basic aid partly through revenue limit funds and partly as additional funds.
Funding formula:	<ul style="list-style-type: none"> • Districts are eligible for up to \$120 per ADA or \$2,400 per district (whichever is higher).
Other comments:	<ul style="list-style-type: none"> • In 2003-04, the Legislature used state categorical funding as an offset to basic aid payments.
<p>^a Average daily attendance.</p>	

Excess Taxes

The 67 districts that received basic aid in 2002-03 qualified for funds because local property taxes supported all, or nearly all, of the districts' revenue limit funding entitlement. Of these 67 districts, property tax revenues *exceeded* the districts' revenue limit entitlement in 60 districts. In 2002-03, state law allowed districts to keep any property taxes in excess of the districts' revenue limit entitlement.

In 2003-04, the Legislature wanted to ensure these "excess" tax districts experienced the same revenue limit reduction as all other districts. Since these districts do not receive any state revenue limit funds, the Legislature chose to reduce each district's categorical program support by the amount it otherwise would have received in revenue limit reductions.

Figure 6 displays selected data on excess tax revenues. These per-ADA revenues are in addition to revenue limit or Necessary Small School funding districts receive. As the figure illustrates, the average excess tax district receives about \$3,438 per ADA in property taxes above its revenue limit entitlement. Differences in the amount received by districts are large, ranging from a high of more than \$10,000 per ADA to a low of \$7 per ADA. Many basic aid districts are quite small—21 have fewer than 200 ADA and 35 have less than 1,000 ADA. As a consequence, a relatively small increase in property taxes (or decline in ADA) can create large increases in per-ADA excess property taxes.

Conclusion. Excess taxes should be considered general purpose funding. It should be noted, however, that excess taxes are different in several important ways from the

other revenue limit elements. For instance, excess tax revenues are not guaranteed revenues—they fluctuate based on ADA, state policies that alter the distribution of property taxes within counties, and local property values. If these changes reduce the level of excess taxes to a district, the district must accommo-

Figure 6 Excess Tax Revenues	
2002-03	
Free of conditions:	• Yes.
Number of districts funded:	• 60
Average (per-ADA ^a in the district):	• \$3,438
Maximum (per-ADA in the district):	• \$10,335
Minimum (per-ADA in the district):	• \$7
Funding formula:	• Property tax revenues in excess of a district's revenue limit entitlement.
^a Average daily attendance.	

date the lower level of funding within its existing budget. In contrast, all of the other revenue limit elements are guaranteed to districts—that is, if ADA increases or property

tax collections fall, the state automatically provides additional General Fund support to compensate.

In addition, excess taxes has some of the characteristics of a local-option tax, such as parcel taxes. In excess tax districts, high property tax revenues result, in part, from increasing property values that are generated when families and businesses choose to locate in these districts. Economic research has documented that housing values reflect the level and quality of services provided by local government, including schools. As a result, the premium families pay to locate in good school districts could be considered, at least in part, a voluntary payment of taxes in support of schools.

As a result, excess tax districts operate differently than most K-12 districts. Any change to the treatment of excess taxes should take these differences into consideration.

Meals for Needy Pupils

Prior to Proposition 13, 505 districts enacted local property tax levies to support the cost of providing meals to students that qualify for free or reduced-price meals. After Proposition 13, the Legislature allowed districts to include the revenues from this tax in their base revenue limit or continue receiving a separate source of state funding. Of the 505 districts, 117 elected to include the funding in their revenue limits and the other 388 districts kept the funds separate.

Despite the name of this funding program, districts receiving funds are *not* obligated to use the revenues to pay for subsidized meals. That is, these funds are really general purpose revenues. By comparison, districts currently receive other state and federal funding that must be used only for subsidized meals.

Figure 7 displays selected data on the Meals for Needy Pupils program. In 2002-03, 372 districts participated in the program, receiving an average of \$112 per ADA

Figure 7	
Meals for Needy Pupils Program	
<i>2002-03</i>	
Free of conditions:	• Yes.
Number of districts funded:	• 372
Average (per-ADA ^a in the district):	• \$112
Maximum (per-ADA in the district):	• \$14,159
Minimum (per-ADA in the district):	• \$0.57
Funding formula:	• Unique district rate per meal times the number of free or reduced-price meals served to eligible students each year.
Comment:	• Districts receive funding from other state and federal categorical programs for subsidized meals programs.
^a Average daily attendance.	

in the district. The figure also shows the very wide range—from \$0.57 per ADA to more than \$14,700 per ADA—of funding provided to districts participating in the program.

Conclusion. Given that the monies are unrestricted in their use, Meals for Needy Pupils funds should be considered general purpose.

Senate Bill 813 (Chapter 498, Statutes of 1983)

In 1983, the Legislature created three incentive programs to encourage districts to increase instructional time and teacher salaries. These programs provided additional revenue limit funds to districts that implemented any of the following: a longer school day, a longer school year, and a minimum teacher salary. Because the incentive programs offer funds in exchange for specific local activities, the programs operate like a categorical program, such as the Class Size Reduction program. The Legislature could have separately budgeted these incentive programs as it does with other categoricals.

Funding arrangements for the incentive programs were fairly simple. Districts participating in the longer day and year programs received a per-ADA grant for meeting the specified minimums. The minimum salary incentive paid districts for the actual cost of establishing a higher minimum teacher salary. Districts were permitted to in-

crease the lowest salary by 10 percent (up to a maximum of \$18,000). The State Department of Education (SDE) no longer maintains specific district amounts provided for each of these incentive programs. Instead, the department provides an adjustment to revenue limits for all three programs based on each district’s historical participation in the incentive pro-

Figure 8	
SB 813 Incentive Programs—Longer School Day and Year Minimum Teacher Salary Programs	
2002-03	
Free of conditions:	<ul style="list-style-type: none"> No: Districts must implement program as specified in statute.
Number of districts funded:	<ul style="list-style-type: none"> 989
Average (per-ADA ^a in the district):	<ul style="list-style-type: none"> \$206
Maximum (per-ADA in the district):	<ul style="list-style-type: none"> \$779
Minimum (per-ADA in the district):	<ul style="list-style-type: none"> \$35
Funding formula:	<ul style="list-style-type: none"> Longer Day and Year: Per-ADA grant for meeting state minimums. Minimum Teacher Salary: Actual costs of increasing the lowest salary paid to district teachers.
^a Average daily attendance.	

grams. Figure 8 displays selected data on the three programs added by SB 813.

While the SB 813 incentive programs are essentially categorical programs, only four small districts do not participate in any of the three incentive programs. Because almost all districts participate, current funding acts very similarly to general purpose funding

and could be added to base revenue limits. As we discussed above, when participation in a program is universal, the program requirements essentially become part of the base K-12 program that all districts must follow.

In addition, all districts now meet the minimum teacher salary requirements of the SB 813 incentive program—although not all districts receive funding for that purpose. This is because district eligibility for the minimum salary incentives was established in 1984, yet districts that did not opt into the program at that time could not subsequently establish eligibility when they raised their minimum salary to the program’s threshold.

Conclusion. For these reasons, we conclude that the SB 813 incentives should be considered general purpose funds. If the Legislature chooses to fold the incentive funds into the base revenue limit, it would have to decide how to treat districts that do not currently participate in the longer day and year programs. One option would be to simply provide these few districts with the average per-ADA amount of incentive funds that districts currently receive. These districts have missed the opportunity to receive incentive funds for 20 years.

Minimum Teacher Salary (1999 and 2000)

The Legislature passed a second minimum teacher salary incentive program in 1999, and increased the incentive further in 2000. This program encouraged districts to raise minimum salaries to \$32,000 in 1999-00 and \$34,000 in 2000-01. The 1999 program provided about \$9.50 per ADA for districts that met the minimum salary requirements (regardless if districts’ salaries were already above the minimum). The 2000 program provided two funding options: (1) \$6 per ADA to any district meeting the minimum, or (2) the amount needed by districts to bring all certificated teachers minimum salary to

\$34,000, whichever is greater.

Figure 9	
Minimum Teacher Salary Incentive Program	
Of 1999 and 2000	
<i>2002-03 Data</i>	
Free of conditions	• No: Districts must establish and maintain a specified minimum teacher salary.
Number of districts funded:	• 858
Average (per-ADA ^a in the district):	• \$34
Maximum (per-ADA in the district):	• \$1,179
Minimum (per-ADA in the district):	• \$1
Funding formula:	• Funding depends on minimum salary paid by districts prior to enactment of program.
^a Average daily attendance.	

Figure 9 displays selected data for this program. Most districts participate in the program, receiving an average of \$34 per ADA. The range in district funding levels is wide—from \$1 per ADA to more than \$1,000 per ADA—but only about 100 districts receive more than \$50 per ADA.

Conclusion. In our discussion of the SB 813 minimum salary program, we concluded the program provided general purpose funding because virtually all districts participate in the program. While participation in the 1999 and 2000 program is widespread, it falls short of universal. Data indicate that about 13 percent of districts paid starting salaries of less than \$30,000. As a result, we cannot conclude that these funds are essentially general purpose in nature.

It should be noted, however, that for many districts, the minimum salary incentives clearly are general purpose funds. Districts in which the minimum salary exceeded the program thresholds *prior* to the creation of the program were eligible for incentives. Since the program required no additional increase in teacher salaries for these districts, the incentives represent discretionary funds. Despite this fact, we do not include these incentive funds in our definition of general purpose.

Capistrano/Fallbrook Attendance Agreement

The Capistrano Unified and Fallbrook Union High School districts receive a special revenue limit adjustment for up to 150 students who attend school in Capistrano but live in an area served by Fallbrook. Specifically, state law authorizes Capistrano to receive a higher base revenue limit for up to 150 students who live on the Marine base at Camp Pendleton (located in Fallbrook's district). Fallbrook claims the ADA for these students and keeps the local property tax portion of the revenue limits for these students.

Data from 2002-03 indicate that Capistrano gains about \$65,000 in higher revenue limit payments for the 150 students transferring from Fallbrook. This amounts to about \$1.35 per ADA in the district. Fallbrook, by keeping the property tax share of these students, receives about \$425,000 in extra funds, or about \$75 per ADA in the district.

Since the enactment of this two-district arrangement, the state authorized interdistrict attendance for all districts. Under specified circumstances, students living in one district can choose to attend a school in another district. The statewide program, however, provides no extra funds to either the sending or receiving district. As the result of this change, Capistrano and Fallbrook receive state funds for activities that other districts currently administer without state subsidies.

Conclusion. All districts are subject to the state's interdistrict attendance policy, and experience the same type of cost pressures that must be addressed with general purpose funds. Only these two districts receive extra funds for that purpose. We believe these additional funds should also be considered general purpose funds. Future legislative revisions to revenue limits could either eliminate this adjustment or include the funds as part of the districts' revenue limits.

Continuation School Funding

State law requires districts to create continuation schools for students who need an alternative educational setting. Only districts that create new continuation schools after 1978-79, however, are eligible for supplemental funding for these schools. Funding for programs existing in 1978-79 was added to base revenue limits as part of the Proposi-

tion 13 revisions to school finance. State funding for continuation schools is based on the size of the continuation school when first established. Like the Necessary Small School program, continuation school grants are tied to the number of students attending the school and the number of teachers hired to serve students.

Figure 10 displays selected data for the continuation school program. In 2002-03, 361 districts received an average of \$53 per ADA in continuation school support. The amount per-ADA varies substantially because the funding formula is designed to allow very small continuation schools to operate. As a result, per-ADA funding levels range from \$0.50 per ADA to \$853 per ADA.

Conclusion.

Continuation school funding should be considered general purpose. All districts must operate a continuation school—how the schools are funded depends on when they were established. Districts operating continuation schools opened prior to 1978 receive this

funding as part of their general purpose base revenue limit. This adjustment to revenue limits provides funding for the same purpose to districts operating schools that opened more recently.

Unemployment Insurance (UI)

The Education Code requires the state to pay district UI costs that exceed the amount incurred by the district in 1975-76. This “additional cost” mechanism was put in place because state courts determined that UI costs constituted a state-mandated local cost. Although that decision was overturned by a higher court, districts continue to receive the additional funding through the revenue limit.

Figure 11 displays selected data on UI reimbursements. Virtually all districts claimed some reimbursement for UI costs in 2002-03. The average amount was about \$6 per ADA, and ranged from \$0.52 per ADA to \$113 per ADA. Only 58 districts received more than \$10 per ADA.

Figure 10	
Continuation School Funding	
2002-03	
Free of conditions:	<ul style="list-style-type: none"> • Yes: So long as the continuation school continues to operate.
Number of districts funded:	<ul style="list-style-type: none"> • 361
Amount (per-ADA ^a in the district):	<ul style="list-style-type: none"> • \$53
Maximum (per-ADA in the district):	<ul style="list-style-type: none"> • \$823
Minimum (per-ADA in the district):	<ul style="list-style-type: none"> • \$0.50
Funding formula:	<ul style="list-style-type: none"> • Funding is based on ADA and the number of teachers employed when the continuation school opens.
Comment:	<ul style="list-style-type: none"> • Only continuation schools created after 1978-79 are eligible for funding.
^a Average daily attendance.	

District funding levels are greatly influenced by the requirement that the state pay only those costs in excess of the district's 1975-76 costs. For instance, one district that experienced UI costs of \$22 per ADA in 2002-03 received no state funding because its base-year costs exceeded its 2002-03 costs. Conversely, a district with costs of \$28 per ADA received \$27 per ADA because its base-year costs totaled only \$1 per ADA.

Figure 11	
Unemployment Insurance Cost Reimbursement Program	
<i>2002-03</i>	
Free of conditions:	• Yes.
Number of districts funded:	• 950
Average (per-ADA ^a in the district):	• \$6
Maximum (per-ADA in the district):	• \$113
Minimum (per-ADA in the district):	• \$0.52
Funding formula:	• Funding is based on actual costs in excess of the district's cost in 1975-76.
^a Average daily attendance.	

Conclusion. We conclude that UI funding is essentially general purpose funding. Virtually all districts receive these funds, which may be used for any district purpose.

Public Employees' Retirement System (PERS) Reduction

The PERS reduction *reduces* the amount of revenue limit funds districts receive. Each year, the PERS board determines the proportion of employee salaries that districts must pay to adequately fund PERS retirement benefits to noncertificated staff. Generally, noncertificated staff includes employees such as teaching assistants, janitors, bus drivers, and secretaries.

The PERS reduction is calculated as the “savings” resulting from the districts’ PERS contribution rate for that year compared to the contribution rate required in the base year of 1981-82 (13.02 percent). In 2002-03, the PERS rate was 9.5 percent, or about 3.5 percentage points below the base year rate. As a result, district revenue limit payments were reduced by 3.5 percent of district PERS-covered employees. Figure 12 shows selected data on the PERS reduction.

The PERS reduction is an artifact of budget cuts from the early 1980s. In essence, the reduction allows the state to capture savings that result from lower PERS rates charged to school districts. The rate fell consistently over time, with a zero PERS rate in 1998-99. With the hard times experienced by the stock market since 2000 and a recent large increase in retirement benefits approved by the state, the PERS rate has increased dramatically in the last few years. As a result, the amount the state saves through the PERS reduction has fallen, or—put differently—state costs have risen significantly.

Figure 12	
Public Employees' Retirement System (PERS) Reduction	
2002-03	
Free of conditions	• Not applicable.
Number of districts funded:	• 976
Amount (per-ADA ^a in the district):	• -\$105
Maximum (per-ADA in the district):	• -\$583
Minimum (per-ADA in the district):	• -\$3
Funding formula:	• Funding reduction is based on district PERS costs and the amount required by PERS to fully fund retirement benefits for covered workers.
^a Average daily attendance.	

Conclusion. The PERS reduction represents a reduction in district general purpose funding. Almost all districts experience a reduction in revenue limit funds because of this adjustment. If the reduction did not exist, districts would have a larger amount of general purpose funds that could be used for any K-12 activity.

Virtually All Elements Provide General Purpose Funds

Our review of the K-12 revenue limit formula determined that almost all of the revenue limit elements provide general purpose funds. Only one adjustment, the 1999 and 2000 minimum teacher salary program, provides funds that we think should be considered categorical funding rather than general purpose.

Our review also illustrates the wide variation in the amounts districts receive through these adjustments. In the next section of this report, we discuss how these adjustments affect the distribution of general purpose funding to K-12 districts.

THE DISTRIBUTION OF GENERAL PURPOSE FUNDS

In this section of the report, we review the total amount of general purpose funds districts receive. To calculate district amounts, we obtained 2002-03 revenue limit data for each district from SDE. We transformed the district data so that the amounts received are expressed in dollars per ADA. Figure 13 illustrates the elements of the general purpose funding calculation and the average per-pupil amounts for large unified school districts for those elements we consider general purpose (or “LAO general purpose funds”). The calculations displayed in Figure 13 *do not* represent actual figures for any district. Instead, they show the average amounts distributed to large unified school districts for the various elements in the revenue limit calculation.

As the figure indicates, large unified districts received an average of \$4,571 in base revenue limit funds in 2002-03. All the revenue limit adjustments provide a total of about \$238 per ADA, bringing total revenue limit funding to \$4,809. Appendix A shows

Figure 13
Average LAO General Purpose Funds
Large Unified School Districts

2002-03
Dollars Per Average Daily Attendance

Revenue Limit	\$4,571.20
Necessary Small School	14.23
Excess Taxes	51.65
Basic Aid	3.26
Meals for Needy Pupils	22.25
Longer Day/Year and Minimum Salary	216.69
Unemployment Insurance	4.61
Continuation School	12.84
PERS ^a Reduction	-87.88
Total	\$4,809.40

^a Public Employees' Retirement System.
Note: Figures do not add due to rounding.

the average LAO general purpose funding calculations for each of the six sizes and types of districts.

While base revenue limits are fairly uniform across districts, the various adjustments to revenue limits result in significantly wider variations in funding levels for districts. Figure 14 displays the distribution of base revenue limits and general purpose funding for large unified school districts. For this figure, we calculated the amount of LAO general purpose funding received by each district. Base revenue limits of these districts are concentrated around \$4,500—169 of the 258 districts (66 percent) receive a base revenue limit that is within \$100 per ADA of the average for large unified districts.

General purpose funding, however, is much more widely distributed. Only 56 districts (22 percent) fall within \$100 per ADA of the \$4,809 average general purpose funding level received by large unified districts. The range in general purpose funding varies from \$4,550 to \$10,680. Clearly, the various elements of the revenue limit calculation result in much less equal distribution of funding than base revenue limits. The distribution of base revenue limit and LAO general purpose funding for each size and type of district is contained in Appendix A.

Figure 14
Large Unified School Districts
Base Revenue Limits and
General Purpose Funds

2002-03
Number of Districts

Amount Per ADA ^a	Base Revenue Limit	LAO General Purpose Funds
Less than \$4,400	—	—
\$4,400 to \$4,499	88	—
\$4,500 to \$4,599	115	20
\$4,600 to \$4,699	21	130
\$4,700 to \$4,799	8	46
\$4,800 to \$4,899	7	18
\$4,900 to \$4,999	9	10
\$5,000 to \$5,199	5	18
\$5,200 to \$5,499	3	7
\$5,500 and higher	2	9

^a Average daily attendance.

Figure 15 displays the five large unified districts receiving the highest and lowest amount of general purpose funds in 2002-03. All of the highest-funded districts received more than \$6,400 per ADA in 2002-03. Four of these districts received a substantial amount of excess property taxes. The fifth district—Sierra Unified—has a very high base revenue limit and receives Necessary Small School funding.

Figure 15
High and Low Funded
Large Unified School Districts

2002-03
Dollars Per ADA^a

Highest Districts	Base Revenue Limit	LAO General Purpose
Carmel	\$4,506	\$10,684
Palo Alto	5,211	7,695
Laguna Beach	4,468	6,918
Sierra	6,592	6,821
Pacific Grove	4,473	6,479
Lowest Districts		
Davis Joint	\$4,463	\$4,577
Walnut Valley	4,425	4,577
Moorpark	4,456	4,573
San Ramon Valley	4,439	4,565
Travis	4,451	4,550

^a Average daily attendance.

The five lowest-funded large unified districts all received less than \$4,600 per ADA in general purpose funds in 2002-03. These districts have below-average base revenue limits and receive few large increases from the various elements of the revenue limit calculation. Data on the five highest- and lowest-funded districts for each size and type is contained in Appendix A.

CONCLUSION—REVISE THE SYSTEM OF REVENUE LIMITS

In this report, we have reviewed the revenue limit formula, which is the state’s mechanism for distributing more than \$28 billion of state and local funding for K-12 education. Our review illustrates the complexity of this formula and the impact of each element of the formula on

the distribution of funding to districts. We conclude that all but one of the major adjustments provide general purpose funds to districts—despite the programmatic labels attached to these adjustments.

On average, the adjustments to base revenue limits add a relatively small amount of general purpose funding. Because the distribution of funds provided by the adjustments is so uneven, however, the distribution of general purpose funds provided through the revenue limit formula varies considerably more than base revenue limits.

Our review also shows that all of the adjustments play a role in the final amount of general purpose funds received by districts. High-funded districts usually receive large amounts through the base revenue limit, excess property taxes, or Meals for Needy Pupils. Low-funded districts tend to receive small amounts through all of the adjustments or have a large PERS reduction.

We recommend the Legislature revise the revenue limit system by consolidating most of the adjustments in the current formula into one general purpose grant. We recommend that this consolidated formula exclude the Necessary Small School funding formula because the current program allows the state to tailor these subsidies each year as the size of the school and other conditions warrant. In addition, excess tax revenues also should not be included in the consolidation, as this would permanently award the higher funding levels resulting from the excess revenues to these districts.

The 1999 and 2000 Minimum Teacher Salary funds also should be excluded, as we think this program does not meet the definition of general purpose funds. We

recommend the Legislature distribute these funds as a categorical funding program rather than through the revenue limit.

Streamlining the revenue limit system would be a major improvement to the K-12 fiscal structure. Future equalization funding would be based on actual general purpose funds received by each district, not by the current base revenue limits. This would result in a more-equal distribution of funds to districts. In addition, it would simplify the state's funding system. This would reduce an extensive amount of state and district paperwork and add transparency for the education community, policy makers, and parents on how K-12 funding is distributed.

Appendix A

Composition and Distribution of K-12 General Purpose Funds

L E G I S L A T I V E A N A L Y S T ' S O F F I C E





Appendix A-1 Large Unified School Districts

Average LAO General Purpose Funds	
<i>2002-03 Revenue Limit Data</i>	
Revenue Limit	\$4,571.60
Necessary Small School	14.23
Excess Taxes	51.65
Basic Aid	3.26
Meals for Needy Pupils	22.25
Longer Day/Year and Minimum Salary	216.69
Unemployment Insurance	4.61
Continuation School	12.84
PERS ^a Reduction	-87.88
General Purpose	\$4,809.40

^a Public Employees' Retirement System.
Note: Figures may not add due to rounding.

Base Revenue Limits and General Purpose Funds		
<i>2002-03 Number of Districts</i>		
Amount Per ADA^a	Base Revenue Limit	LAO General Purpose Funds
Less than \$4,400	—	—
\$4,400 to \$4,499	88	—
\$4,500 to \$4,599	115	20
\$4,600 to \$4,699	21	130
\$4,700 to \$4,799	8	46
\$4,800 to \$4,899	7	18
\$4,900 to \$4,999	9	10
\$5,000 to \$5,199	5	18
\$5,200 to \$5,499	3	7
\$5,500 to \$5,999	1	4
\$6,000 to \$6,999	1	3
\$7,000 to \$7,999	—	1
\$8,000 and higher	—	1

^a Average daily attendance.

High and Low Funded Districts		
<i>2002-03 Dollars Per ADA^a</i>		
Highest Districts	Base Revenue Limit	LAO General Purpose
Carmel	\$4,506	\$10,684
Palo Alto	5,211	7,695
Laguna Beach	4,468	6,918
Sierra	6,592	6,821
Pacific Grove	4,473	6,479
Lowest Districts		
Davis Joint	\$4,463	\$4,577
Walnut Valley	4,429	4,577
Moorpark	4,456	4,573
San Ramon Valley	4,439	4,565
Travis	4,406	4,550

^a Average daily attendance.



Appendix A-2 Small Unified School Districts

Average LAO General Purpose Funds	
<i>2002-03 Dollars Per ADA^a</i>	
Revenue Limit	\$3,502.35
Necessary Small School	2,801.66
Excess Taxes	148.99
Basic Aid	10.43
Meals for Needy Pupils	65.82
Longer Day/Year and Minimum Salary	156.78
Unemployment Insurance	6.70
Continuation School	154.16
PERS ^b Reduction	-132.17
General Purpose	\$6,714.73

^a Average daily attendance.
^b Public Employees' Retirement System.
Note: Figures may not add due to rounding.

Base Revenue Limits and General Purpose Funds		
<i>2002-03 Number of Districts</i>		
Amount Per ADA^a	Base Revenue Limit	LAO General Purpose Funds
Less than \$4,400	—	—
\$4,400 to \$4,499	1	—
\$4,500 to \$4,599	3	—
\$4,600 to \$4,699	1	—
\$4,700 to \$4,799	8	—
\$4,800 to \$4,899	29	1
\$4,900 to \$4,999	14	4
\$5,000 to \$5,199	6	8
\$5,200 to \$5,499	4	9
\$5,500 to \$5,999	2	7
\$6,000 to \$6,999	1	24
\$7,000 to \$7,999	—	5
\$8,000 and higher	—	11

^a Average daily attendance.

High and Low Funded Districts		
<i>2002-03 Dollars Per ADA^a</i>		
Highest Districts	Base Revenue Limit	LAO General Purpose
Pacific	\$4,911	\$18,330
Death Valley	5,477	12,839
Mattole	4,911	11,810
Lone Pine	5,145	11,396
Owens Valley	6,176	11,263
Lowest Districts		
Mammoth	\$4,777	\$4,992
Durham	4,682	4,976
Aromas/San Juan	4,828	4,947
Denair	4,809	4,938
Colusa	4,556	4,852

^a Average daily attendance.



Appendix A-3 Large High School Districts

Average LAO General Purpose Funds	
<i>2002-03 Dollars Per ADA^a</i>	
Revenue Limit	\$5,124.36
Necessary Small School	171.06
Excess Taxes	184.73
Basic Aid	11.04
Meals for Needy Pupils	198.11
Longer Day/Year and Minimum Salary	272.10
Unemployment Insurance	4.73
Continuation School	43.08
PERS ^b Reduction	-100.49
General Purpose	\$5,908.72

^a Average daily attendance.
^b Public Employees' Retirement System.
Note: Figures may not add due to rounding.

Base Revenue Limits and General Purpose Funds		
<i>2002-03 Number of Districts</i>		
Amount Per ADA ^a	Base Revenue Limit	LAO General Purpose Funds
Less than \$4,400	—	—
\$4,400 to \$4,499	—	—
\$4,500 to \$4,599	—	—
\$4,600 to \$4,699	—	—
\$4,700 to \$4,799	—	—
\$4,800 to \$4,899	—	—
\$4,900 to \$4,999	—	—
\$5,000 to \$5,199	46	—
\$5,200 to \$5,499	37	55
\$5,500 to \$5,999	3	15
\$6,000 to \$6,999	1	10
\$7,000 to \$7,999	—	3
\$8,000 and higher	—	4

^a Average daily attendance.

High and Low Funded Districts		
<i>2002-03 Dollars Per ADA^a</i>		
Highest Districts	Base Revenue Limit	LAO General Purpose
Taft Union	\$6,187	\$20,390
Mountain View/ Los Altos	5,243	8,804
Santa Ynez Valley	5,146	8,762
San Mateo Union	5,301	8,133
Sequoia Union	5,404	7,862
Lowest Districts		
Grossmont Union	\$5,191	\$5,313
Acalanes Union	5,126	5,308
Liberty Union	5,149	5,305
Huntington Beach	5,132	5,286
San Dieguito Union	5,134	5,222

^a Average daily attendance.



Appendix A-4 Small High School Districts

Average LAO General Purpose Funds	
<i>2002-03 Dollars Per ADA^a</i>	
Revenue Limit	\$2,983.16
Necessary Small School	3,711.42
Excess Taxes	563.58
Basic Aid	30.00
Meals for Needy Pupils	33.34
Longer Day/Year and Minimum Salary	153.04
Unemployment Insurance	3.90
Continuation School	201.00
PERS ^b Reduction	-107.57
General Purpose	\$7,571.85
^a Average daily attendance. ^b Public Employees' Retirement System. Note: Figures may not add due to rounding.	

High and Low Funded Districts		
<i>2002-03 Dollars Per ADA^a</i>		
Highest Districts	Base Revenue Limit	LAO General Purpose
Point Arena Joint Union	\$5,885	\$9,492
Dunsmuir Joint Union	5,812	8,176
East Nicholas	5,697	6,338
Hamilton Union	5,720	6,282
^a Average daily attendance.		

^a Since there are only four districts in this category, we omitted the figure summarizing the distribution of base revenue limits and general purpose funds.



Appendix A-5 Large Elementary School Districts

Average LAO General Purpose Funds	
<i>2002-03 Dollars Per ADA^a</i>	
Revenue Limit	\$4,349.21
Necessary Small School	69.22
Excess Taxes	95.65
Basic Aid	7.36
Meals for Needy Pupils	18.71
Longer Day/Year and Minimum Salary	185.42
Unemployment Insurance	4.48
Continuation School	—
PERS ^b Reduction	-81.94
General Purpose	\$4,648.10

^a Average daily attendance.
^b Public Employees' Retirement System.
Note: Figures may not add due to rounding.

Base Revenue Limits and General Purpose Funds		
<i>2002-03 Number of Districts</i>		
Amount Per ADA ^a	Base Revenue Limit	LAO General Purpose Funds
Less than \$4,400	365	30
\$4,400 to \$4,499	44	244
\$4,500 to \$4,599	23	92
\$4,600 to \$4,699	13	38
\$4,700 to \$4,799	7	13
\$4,800 to \$4,899	3	11
\$4,900 to \$4,999	4	4
\$5,000 to \$5,199	7	12
\$5,200 to \$5,499	7	9
\$5,500 to \$5,999	—	4
\$6,000 to \$6,999	—	10
\$7,000 to \$7,999	—	4
\$8,000 and higher	—	2

^a Average daily attendance.

High and Low Funded Districts		
<i>2002-03 Dollars Per ADA^a</i>		
Highest Districts	Base Revenue Limit	LAO General Purpose
Sausalito	\$5,101	\$14,386
Montecito Union	4,615	11,789
Portola Valley	4,672	7,689
Kenwood	4,327	7,689
Las Lomas	5,032	7,314
Lowest Districts		
Burrell Union	\$4,279	\$4,353
Three Rivers Union	4,314	4,336
Loma Prieta Joint Union	4,280	4,330
Newcastle	4,223	4,322
Two Rock Union	4,345	4,289

^a Average daily attendance.



Appendix A-6 Small Elementary School Districts

Average LAO General Purpose Funds	
<i>2002-03 Dollars Per ADA^a</i>	
Revenue Limit \$1,913.37	
Necessary Small School 4,216.52	
Excess Taxes 765.71	
Basic Aid 21.43	
Meals for Needy Pupils 21.50	
Longer Day/Year and Minimum Salary 65.50	
Unemployment Insurance 9.31	
Continuation School 0.00	
PERS ^b Reduction -158.26	
General Purpose	\$6,855.08
^a Average daily attendance.	
^b Public Employees' Retirement System.	
Note: Figures do not add due to rounding.	

Base Revenue Limits and General Purpose Funds		
<i>2002-03 Number of Districts</i>		
Amount Per ADA ^a	Base Revenue Limit	LAO General Purpose Funds
Less than \$4,400	3	1
\$4,400 to \$4,499	1	—
\$4,500 to \$4,599	3	1
\$4,600 to \$4,699	3	—
\$4,700 to \$4,799	1	3
\$4,800 to \$4,899	2	2
\$4,900 to \$4,999	1	1
\$5,000 to \$5,199	2	2
\$5,200 to \$5,499	66	20
\$5,500 to \$5,999	6	16
\$6,000 to \$6,999	1	14
\$7,000 to \$7,999	1	8
\$8,000 and higher	1	23
^a Average daily attendance.		

High and Low Funded Districts		
<i>2002-03 Dollars Per ADA^a</i>		
Highest Districts	Base Revenue Limit	LAO General Purpose
McKittrick	\$8,164	\$18,744
Belridge	5,478	11,972
Pine Ridge	5,238	11,774
Horicon	5,870	11,771
Midway	5,223	11,494
Lowest Districts		
Plainsburg Union	\$4,676	\$4,773
Penninsula Union	4,641	4,770
Allensworth	4,584	4,727
Fieldbrook	4,359	4,560
Blochman Union	4,357	4,341
^a Average daily attendance.		