

CALIFORNIA

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I. GENERAL BACKGROUND

State

After four years of real decreases in per pupil revenues due to the recession in the early 1990s, California's economy has grown substantially in recent years. Schools have shared in this prosperity, with substantial increases in per pupil revenues beginning in 1995–1996.

Beginning in 1996–1997, the Legislature established the Class Size Reduction (CSR) program. Appropriations for this program have exceeded \$1.5 billion for each of the three past years.

The state has also implemented a new special education funding program, replacing a program reimbursement model with one that funds special education services based on Average Daily Attendance.

The current status of California school finance can be traced to three watershed events of the last 20 years:

1. The *Serrano v. Priest* legal challenge to California's school finance system,
2. Passage of Proposition 13's property tax limitation, and
3. Voter approval of Proposition 98's minimum funding guarantee for education.

The primary effect of these three events has been a dramatic shift in the control of California school finance away from local districts to the state. In 1998–1999 California spent just over \$40 billion from all sources, on K–12 education. Of that total about 9% came from federal funds, with the remaining 91% coming from various sources within the state. Approximately two-thirds non-Federal \$36.5 billion comes directly from state funds. Local property taxes, which are directly controlled by the state, contributed \$9.3 billion or approximately one-

fourth of state and local revenues. Other local revenues constitute \$2.8 billion or another 7.6% of state and local revenues.

Total K–12 education funding from all sources for the 1998–1999 school year in California amounted to \$40.095 billion, or \$5,752 for each of the 5.44 million students in Average Daily Attendance (ADA) in the state's public schools.

Most state funds for the public schools come from sales and income taxes. Proposition 98, passed by the voters in 1988, guarantees a minimum state funding base for K–12 schools and community colleges. K–14 education must receive the greater proportion of the state general fund tax revenues appropriated for education in 1986–87 (known as Test 1) or the level of combined state aid and local tax dollars received the prior year, adjusted for statewide ADA growth and an inflation factor equal to the annual percentage change in per capita personal income (known as Test 2). Proposition 111, passed in 1990, added a new test (known as test 3) which uses a different formula for the inflation factor. This test is designed to adjust the allocation to education in years when there are substantial changes in state revenues. Under Test 3 the prior-year level of funding from state aid and local property taxes is increased for statewide ADA growth and “inflation” as measured by the growth in per capita General Fund revenues plus 0.5%. Test 3 is intended to ensure that K–14 education bears a “fair share” of the state's total budgetary pain in years when General Fund revenue growth is insufficient to fully fund enrollment growth plus the full Test 2 “inflation” adjustment. Test 2 and Test 3 differ only in the “inflation” factors used.

Since the 1970s, California has not enacted a major replacement of its school finance formula. Rather, the approach has been to make structural changes to the existing system. The antecedents of the current formula were established in 1971 with the passage of Senate Bill 90 following the lower court ruling in *Serrano v. Priest*. This legislation created the revenue limit system that is still in use today. In 1978, in response to Proposition 13, Assembly Bill 8 modified the finance structure, largely by accommodating the loss of local taxing authority, and created a system funded mostly by the state. In 1988, the voters approved Proposition 98 insuring that approximately 40% of the state's general fund budget would be used on K–14 education. This figure was reduced to 38.5% in 1992–1993 when due to the state's severe economic recession, property taxes were shifted from counties and cities back to school agencies. It was further reduced to 34.6% in 1993–1994 when a second shift took place. These funds were used to supplant existing state aid for schools and so did not result in any increase in school funding.

Under the property tax system established by Proposition 13, property taxes are constitutionally limited to 1% of assessed value. Assessed value is defined as the assessed value of a property in 1975–76 with inflationary increases limited to no more than 2% a year. All property is reassessed at market value when it is sold or otherwise changes hands. As a result, there is a substantial differential in the property taxes assessed on similar types of property, based solely on the date that property was purchased.

In the late 1990s about 55% of total funding has been for general purposes and about 45% has been earmarked for special purposes or categories of students. The proportion of the total earmarked for specific purposes has increased steadily in recent years.

In 1998–1999, the enactment of SB 727 (Ch. 85/97) eliminated state funding for excused absences. School districts and county offices of education revenue limits were rebenchmarked to account for positive attendance reporting.

Local

The state had 988 local school districts in 1998–1999. This included 323 unified, 572 elementary and 93 high school districts. In addition, each of the 58 counties has an office of education. All 988 districts are fiscally independent.

The major source of local revenue for school districts is the property tax. Local property taxes, limited to 1% of assessed value by Proposition 13, are distributed within each county on the basis of each taxing jurisdiction's percentage of total county property tax collections the year before Proposition 13 passed. This share was adjusted upwards beginning in 1992–1993 and again in 1993–1994 when the Legislature “shifted” property tax revenues from counties and cities to school districts.

Funding Summary 1998–1999

Total State School Aid (All Programs)		\$ 24,472.8 million
Grants in Aid	24,227.7 million	
Teacher Retirement Contributions	245.1 million	
FICA	0 million	
Total Local School Revenue		\$ 12,011.5 million
Property Tax	9,252.2 million	
Other local source tax revenue	2,759.3 million	
Local source non-tax revenue	0 million	
Total Combined State and Local School Revenue		\$ 36,484.3 million
State Financed Property Tax Credits Attributable to School Taxes		0

II. LOCAL SCHOOL REVENUE

Property Taxes

For 1998–1999, school districts received \$9.25 billion in local property tax revenues. Under Proposition 13 (described below) total ad valorem property taxes are limited to 1% of assessed value. Determination of assessed value is described in the Tax and Spending Limits section below. The Legislature determined the collection and distribution of the total local property tax collected under Proposition 13. Under current law, the 58 counties collect the property tax and distribute it to the taxing jurisdictions within their boundaries via a legislatively determined formula. Prior to 1992–1993 each taxing jurisdiction received the same percentage of the county's property tax collections (adjusted by AB8) as it received in the year prior to Proposition 13's passage. In a 1993–1994 revenue neutral shift for schools, the legislature changed the formula so that an \$1.4 billion was shifted from cities and counties to local school districts. Rather than increase school spending, this shift simply reduced the state's funding responsibility by the same amount.

Property tax rates are expressed as a percent of assessed value, and all property is listed on the tax rolls at 100% of assessed value (a figure which, as described below, is typically substantially below the market or true cash value of that property).

Other Local Revenue

In 1998–1999 school districts received an additional \$2.76 billion in local revenues. These revenues included voter approved parcel taxes, local sales taxes, local user fees, private support funds for schools, and other miscellaneous revenues including municipality contributions from their own tax sources to local schools.

Income Tax

California school districts do not receive any locally levied income taxes, nor do they have the authority to levy such taxes.

Sales Tax

California school districts do not receive any locally levied sales taxes, nor do they have the authority to levy such taxes. San Francisco Unified School District is the one exception to this. The district levies a sales tax of 0.5%.

Tax Credits and Exemptions

All privately owned homes are eligible for a \$7,000 homestead exemption from property taxes. Elderly taxpayers with certain disabilities are eligible for additional exemptions up to \$13,300. In addition, elderly taxpayers who sell a home and purchase another home may take their property tax assessment from the first home with them to the new home. Otherwise the home would be reassessed at market value (see section on tax limits below).

California had an income tax rebate program for low income renters for many years, but this was eliminated in 1991–1992 in an effort to minimize state expenditures during the recession of the 1990s, and the program has not been restored.

III. TAX AND SPENDING LIMITS

Property tax levies are constitutionally limited to 1% of assessed value and distributed to school districts on the basis of a legislatively determined formula as described above. Districts can levy special taxes for the purpose of paying for general obligation bonds if they gain a two-thirds super-majority vote. They are constitutionally prohibited from levying other ad valorem property taxes. Such taxes may not preempt existing state taxes (e.g., sales, personal income, etc.).

Assessed value is based on a property's 1975–76 assessed value, and may not increase by more than 2% a year. Property is reassessed at market value when it is sold or changes hands. Taxpayers have the right to challenge assessments, and often do when housing prices decline. The 2% limit on increases in assessed value only applies once the property returns to the challenged value. Because of this disconnect between market and assessed value, most taxpayers' real property tax rate is below 1%. Moreover, since residential property tends to be exchanged more often than business, industrial and commercial property, the relative share of the property tax base represented by residential property, and thus the relative share of total property tax collections has increased since the passage of Proposition 13.

In addition to the Proposition 13 limitations, state spending is theoretically limited by the Gann Spending Limitation. Passed as Proposition 4 in 1979, this measure constitutionally limits increases in state general fund expenditures from taxes to no more than the growth in state population plus the growth in California personal income. Prior to the 1990 passage of Proposition 111, which made significant changes in both the Gann limitation and Proposition 98, the inflation factor in the Gann limitation was the lesser of the growth in the CPI-U or personal income, but Proposition 111 changed the measure to personal income, which has historically tended to be slightly higher. Proposition 111 also changed the population growth factor used to calculate the Gann Limit, splitting the growth into two components: 40% based on the growth in K–14 ADA, and 60% on the basis of total state population. Since the school age population in California is growing faster than overall population, this figure increases the amount of spending allowed under the Gann Limit. Although the Gann Limit appears imposing, the state has only exceeded the limitation once since 1979, and the recession of the early 1990s, combined with dramatic severe budget reductions to match for four years precludes the likelihood of the state reaching the Gann Limit any time in the foreseeable future.

IV. STATE EARMARKED TAX REVENUE

Under Proposition 98, passed in 1988, a fixed percentage of the state's general fund budget is to be dedicated to K–14 public education. Originally this figure was approximately 40% of the general fund. However, in 1992–1993 and again in 1993–1994, the legislature shifted a portion of the property taxes collected away from other local governments and gave them to school districts. This shift, which amounted to \$1.4 billion in 1992–1993 and \$2.6 billion in 1993–1994, was used to replace state funds and not increase total spending. Thus, the required share of the general fund budget was reduced accordingly each year.

The California State Lottery was established by the voters in 1984. The initiative stipulated that a minimum of 34% of the lottery's receipts must be used to fund education, and that the funds must supplement existing state allocations to education. The lottery has never provided more than 4% of the total funding for the state's schools, and in 1998–1999 provided K–12 education with \$201.6 million. This figure represents about \$122 per pupil, or less than 2% of total school district revenue.

V. BASIC SUPPORT PROGRAM

Funding in 1998–1999: \$22,066.4 million..

Percentage of Total State Aid: 90.2%.

Nature of Program: Foundation Program (revenue limit funding), with a flat grant base (basic aid).

Allocation Units: Pupils. Average Daily Attendance (ADA). ADA is determined based on a daily count of pupils in attendance. Prior to 1998–1999 ADA was calculated on the basis of the number of pupils in attendance plus the number with excused absences. However, starting with 1998–1999, only pupils actually in school are counted toward a district's ADA count. Official ADA counts for apportionment of state aid purposes are reported to the state three times a year—P1 in October, P2 in April, and final ADA after the school year ends. Most programs are funded on P2 ADA.

Local Fiscal Capacity: District revenue limits (the amount of general revenue the district may receive per ADA in a given year) are based on historic expenditure patterns with increases inversely related to the level of the revenue limit. This has produced a gradual equalization of general revenue per ADA. A district's revenue limit funding is an entitlement equal to the revenue limit times. The entitlement is funded from property tax revenues and state. State aid is composed of a constitutionally mandated flat grant of \$120 per ADA, and additional general funds needed to fully fund the revenue limit entitlement. Districts with local property taxes plus basic aid grants totaling more than their computed revenue limit funding are allowed to keep the excess funds.

How The Formula Operates: A school district's total revenue limit funding is determined through a process which consists of several components. The value of

each component is determined through a complicated set of formulas. The following narrative describes how the value of each component is determined.

Base Revenue Limit per ADA. The base revenue limit per ADA is calculated using the previous year's base revenue limit prior to any deficit, plus an inflation factor based on a statutory cost-of-living adjustment (COLA). This COLA is the annual percentage change in the “Implicit Price Deflator for State and Local Government purchases of goods and services for the United States as published by the United States Department of Commerce for the 12-month period ending in the third quarter of the prior fiscal year” (CAL CODE § 42238.1(b)). The calculated COLA is applied to the average base revenue limit per ADA for each type of district and converted to a dollar figure per ADA which is then granted to each school district of that type in the state. For the purposes of this calculation, large and small districts of each type are lumped together. As a result, high revenue limit districts receive a smaller percentage increase in their revenue limit than do low revenue limit school districts, thus furthering equalization of spending each year.

ADA. The next step is to determine the district ADA that is to be multiplied by the base revenue limit per ADA. See allocation units (above) for calculating the ADA. In 1993, the State Legislature ended years of debate over minimum day attendance. Rather than require districts to keep track of students to determine their presence for their applicable minimum day, students in regular and special education programs that are enrolled for at least a minimum day, and that attend any part of the day, are considered present for the entire day. Time requirements for school days may be averaged as follows:

Grade	The school day may contain as few as...	But must average..	Over ____ consecutive school days.
• Kindergarten	60 minutes	180 minutes	10
• Grades 1–3	170 minutes	230 minutes	10
• Grades 4–8 (in an elementary school)	180 minutes	240 minutes	10
• Jr / Sr High	180 minutes	240 minutes	2

In determining ADA, a district may count the greater of current or prior year Second Principal ADA.

General Purpose Funding. This is the portion of the total adjusted revenue limit that is exclusive of special needs adjustments and summer school funding. It has two ADA components: the total base revenue limit funding, and the “necessary small school” adjustments.

Generally, schools that are geographically isolated and have low ADA are considered “necessary,” although the exact criteria for such a determination are very detailed and beyond the scope of this document. In order to qualify for necessary small school adjustments, districts must meet all of the following criteria: 1) under 2,501 ADA, 2) have an elementary school with less than 100 ADA and/or a high school with under 300 ADA, 3) fulfill the education code definition of a necessary small school. Use of the necessary small school formula is optional.

State Share: The state share of a district's revenue limit funding is equal to the total adjusted revenue limit funding minus local tax receipts. The California Constitution requires that in no event shall state aid be less than the constitutionally guaranteed basic aid of \$120 per ADA, or \$2,400 per district, whichever is greater. Since state aid is equal to the difference between total adjusted revenue limit funding and local tax collections, increases in property tax revenue result in dollar for dollar reductions in state aid except for basic aid districts. In 1998–1999, state general funds provided the largest share of all school district revenue limit funding, a total of \$22.066 billion (55%) of the \$40.095 billion total K–12 education expenditure in the state. This represents 60.5% of state and local revenues.

Because of high-value property located within their boundaries, some districts receive large amounts of local tax revenues which, when combined with state basic aid, exceed the local revenue limit. These “basic aid districts” receive only the minimum basic aid and do not receive any property taxes shifted from local government agencies.

Local Share: The main source of local revenue is the district's share of the mandatory 10 mill (1%) property tax levied on both the secured and unsecured tax rolls. Property taxes are levied by each county and distributed to each school agency in a county in proportion to their share of the total property tax collections in the county prior to the passage of Proposition 13 in 1978. The state reimburses districts for the loss in local property tax collections resulting from the \$7,000 (per home, applied to assessed value) homeowner’s tax exemption. Other sources of local income include supplemental secured roll taxes, timber yield and aircraft taxes, prior year's (delinquent) taxes and impounds, collected property tax

penalties, trailer coach fees, and 50% of a district's miscellaneous funds (payments received in lieu of taxes and revenues from royalties or bonuses). In 1998–1999, local property tax levies provided \$9.25 billion and other local revenues provided \$2.76 billion, representing 23% and 6.9%, respectively, of the total K–12 expenditure of \$40.095 billion for the state.

Weighting Procedures: None.

Adjustments for Special Factors: There are both positive and negative adjustments to the revenue limit funding. Positive adjustments include:

Unemployment Insurance. The state reimburses districts for mandated increases in unemployment insurance costs over the base year 1975–76. The adjustment is equal to the 1993–1994 costs realized in all funds (not just the General Fund), computed at the end of the year to represent actual expenditures, minus the 1975–76 costs.

Meals for Needy Pupils. This adjustment is only for those districts that levied the “meals for needy pupils permissive override tax” in 1977–78, and distribution of the revenue that it generates for the district is not restricted.

Necessary Small Continuation High Schools. This adjustment, intended to offset the operating costs of a continuation high school, is based on first year costs of operation. It is only for districts that established a new continuation high school in 1979–80 or thereafter, or for any unified district that became effective on or after June 30, 1978 with a high school having less than 300 ADA.

County-Educated Students. County offices of education are service agencies for all districts and provide instructional supervision, health, pupil, personnel, curriculum, special education, and fiscal services to the districts in their county. California has 58 counties, each with its own office of education. County-educated ADA revenues are determined as part of a district's total deficated revenue limit, and then transferred directly to county offices through the apportionment process.

Summer School Programs. These adjustments are not subject to the K–12 revenue limit deficit because the Annual Budget Act funds them through a separate appropriation. The description “summer” school is a bit of a misnomer, since it applies to programs held during the traditional summer break, as well as inter-session programs held by year-round schools. There are also mandated summer school programs, “Saturday summer school” programs, and a “tutoring

and homework assistance” program, each of which has a unique funding formula within the Budget Act appropriation for summer school programs.

Negative adjustments include:

PERS Recapture. Since 1981–82 the state has required that the total revenue limit apportionment be reduced by any Public Employees' Retirement System (PERS) savings that a district enjoys from reductions in the employer contribution rate.

Class Size Penalties. Various sections of the education codes establish maximum class size standards for grades K–8, with corresponding reductions in a district's funded ADA for exceeding those standards. Under some circumstances the State Board of Education grants waivers for excessive class sizes. (See also the section on California's Class Size Reduction below).

Deficit. In cases where the amount to which schools are entitled exceeds the funding available, a deficit factor is applied to funding amounts.

Aid Distribution Schedule: Districts receive money from the state each month based on four principal apportionment payments.

Advance Apportionment. Calculated in July, it determines monthly payments for July through January. It is based on the prior year P-2 (2nd official count day) count of ADA, and is adjusted only for changes in the statutory formulas or the deficit factor.

First Principal Apportionment. Certified by February 20th, it determines monthly payments for February through May. It is based on actual P-1 (1st official count day) ADA, and estimates of taxes and other data.

Second Principal Apportionment. Certified by June 25th, based on actual P-2 ADA and updated estimates of taxes and other data. It determines payment for June.

Annual Recalculation. Certified in February of the following year along with the P-1 apportionment. It determines the prior year correction. It is based on all actual data. Corrections can be made for up to 1 year unless identified by audit (CAL.EDUCATION CODE § 41341). .

At each apportionment, the state estimates each district's total apportionment and provides monthly payments on the basis of the following schedule:

July	6%
August	12%
September	8%
October	8%
November	8%
December	8%
January	8%
February	2/6 of recalculated balance due
March	1/6 of recalculated balance due
April	1/6 of recalculated balance due
May	1/6 of recalculated balance due
No payments are made to districts in June of each year	

Property taxes in California are due on December 10 and April 10 of each year. Fifty percent of the property tax bill is due each time. Payments made to county treasurers are distributed immediately to local jurisdictions.

Districts Off Formula: Because of the constitutional requirement that all districts receive a basic aid grant of \$120 per ADA, it is possible that the combined total of local property tax collections and the basic aid grant will exceed a district's revenue limit. In these instances, there is not a state recapture provision, and the district is allowed to keep the funds. The exact number of districts in this category varies from year to year depending on local tax collections. It is estimated that state aid to these districts amounts to less than \$1 million, but total local property tax collections in excess of district revenue limits may be as high as \$79.1 million, representing a substantial source of revenue to the state if those funds could be recaptured.

Extent of Participation: All 988 districts in the state participate in the revenue limit formula.

VI. TRANSPORTATION

Funding in 1998–1999: \$524.9 million.

Percentage of Total State Aid: 2.2%.

Description: State funding for two transportation categories, special education (\$521.0 million) and home-to-school (\$3.9 million), through “mega-item” funding of 32 categorical programs. (See description of mega-item below.) State funding

represents about half of all transportation expenses, with local school agencies making up the difference (CAL EDUCATION CODE § 41850).

State Share: Historically, state appropriations for transportation funding have not kept pace with transportation costs in school districts. This is the result of two factors: a transportation aid formula that has no adjustment for growth in pupils transported, and low, zero, or even negative (1992–1993 and 1993–1994) COLA adjustments for most years since 1983–1984. Consequently, state aid currently funds only about half of the statewide total for transportation costs. There is substantial evidence that while state funding only pays for 57% of transportation costs on average, the proportion of state reimbursement varies dramatically across districts. This problem was enhanced with changes made for the 1998–1999 school year.

For 1998–1999 special education transportation funding and for home-to-school transportation received a 4.02% COLA. The home-to-school COLA amounted to \$10.7 million, all of which was used to fund equalization for home-to-school transportation as required by SB 120. The equalization formula for home-to-school transportation targeted additional money to districts that had both a high level of encroachment in home-to-school transportation, and a high fraction of low-income students for whom transportation fees may not be charged.

Bus Replacement. In addition to the transportation funding described above, the state operates a program for school bus replacement for small school districts. 1998–1999 funding amounted to \$3.9 million, an increase of 4.02% over the previous year. Only districts and county offices with fewer than 2,501 ADA are eligible for this program. (This represents about 750 of the 1,046 districts and county offices). In 1998–1999, only 50 of the 200 applications were funded by the state.

Transportation Fees. In a March 1992 decision the California Supreme Court ruled that home-to-school transportation fees do not violate the state constitution. There are two limitations on these fees. First, they cannot exceed the statewide average non-subsidized cost for public transit systems, which in 1997–1998 (latest year for which data were available) was \$5.14 per person per daily round trip. Therefore, for a typical school year of 180 days, \$925 would be the maximum amount a district could charge. Second, a district cannot use transportation as a profit-making enterprise. Also, there are fee waivers available for pupils of parents or guardians who are indigent, and for certain classifications of special education students.

Local Share: Transportation expenditures that exceed state aid must be financed out of school district general operating funds.

Extent of Participation: A total of 921 local school districts and 49 counties receive transportation funding from the state.

VII. SPECIAL EDUCATION

Funding in 1998–1999: \$2.2 billion.

Percentage of Total State Aid: 8.9%.

Description: Under AB 602, beginning in 1998–1999, the state moved to a per ADA funding model for special education. While the transition to the new system is quite complex, the framework for the system is very straightforward. Beginning in 1998–1999 Special Education Local Program Agencies (SELPA) received a flat amount of state aid for each special education ADA. The amount was determined by dividing the 1997–1998 SELPA special education funding by the 1997–1998 SELPA K–12 ADA. The resulting figure is the special education allotment per K–12 ADA each SELPA receives. The amount is adjusted annually by a COLA and by the change in SELPA total ADA. In addition, SELPAs funded below the statewide average rate per ADA receive equalization aid to bring them up to the statewide average over time. A provision of the formula provides extra funding for SELPAs with above average number of high cost special education students.

Extent of Participation: There are 949 districts receiving special education funds in California.

VIII. COMPENSATORY EDUCATION

Funding in 1998–1999: \$436.2 million.

Percentage of Total State Aid: 1.8%.

Description: Compensatory education programs are funded through the state and through federal funds. The state supports the following programs: Economic Impact Aid (EIA), \$400.9 million; Miller-Unruh Reading Program, \$31.8 million; Native American Indian Education Program, \$0.5 million; American Indian Education Centers, \$3.0 million.

Federal funds provide resources through the Elementary Secondary Education Act (ESEA), Education Consolidation and Improvement Act (ECIA) Title 1, and federal refugee and immigrant programs.

State Share: EIA provides funds to school districts with high concentrations of children who are poor, educationally disadvantaged, or have limited proficiency in English. These funds are used to (1) supplement educational services, particularly in basic skills, for children who have difficulty in reading, language development, or mathematics, and (2) provide bilingual education programs (EIA-LEP) for children who are classified as limited English-proficient (LEP).

Funding for the EIA program is distributed according to 2 formulas. The primary formula, which is used by SDE to allocate approximately 91% of the EIA funds, involves a complex multi-step process which (1) determines statewide and district share of “gross need” and (2) allocates available resources based on (a) maintaining at least 85% of each district's prior-year funding level and (b) using any remaining funds to address “unmet needs.” This primary EIA funding formula is based on the sum of the number of children ages 5 to 17 who are from families receiving Aid to Families with Dependent children (AFDC) and the number of pupils with limited English proficiency. Adjustments for enrollment growth are based on actual growth in these populations between the past year and the current year.

Local Share: Districts are not required to contribute to compensatory education programs. Not all districts receive compensatory education aid.

Extent of Participation: Not reported.

IX. GIFTED AND TALENTED EDUCATION

Funding in 1993–1994: \$59.4 million.

Percentage of Total State Aid: less than 1%.

Description: (CAL EDUCATION CODE §§ 52200 to 52213, 62000.11, 62007; AB 474) California public elementary and secondary schools provide unique opportunities for Gifted and Talented students who are identified as possessing demonstrated or potential abilities that give evidence of high performance capability. The legislature requires that programs include (1) differentiated opportunities for learning commensurate with the gifted and talented pupil's particular abilities and talents, (2) alternative learning environments in which

gifted and talented pupils can acquire skills and understanding at advanced ideological and creative levels commensurate with their potentials, (3) elements that help gifted and talented pupils develop sensitivity and responsibility to others, (4) elements that help to develop a commitment in gifted and talented pupils to constructive ethical standards, (5) elements that assist gifted and talented pupils to develop self-generating problem-solving abilities to expand each pupil's awareness of choices for satisfying contributions in his or her environment, and (6) elements that help gifted and talented pupils develop realistic, healthy self-concepts.

State Share:

<u>Number of GATE students</u>	<u>State Aid/year</u>
1–10	\$161 per pupil
11–25	\$147 per pupil
26–50	\$125 per pupil
>50	\$6.81 x District ADA

Local Share: Local districts are responsible for costs that exceed the state reimbursement if they incur them.

Extent of Participation: Not reported.

X. BILINGUAL EDUCATION

Funding in 1998–1999: \$1.5 million.

Percentage of Total State Aid: less than 1%.

Description: The appropriation for bilingual teacher training represents a very small part of the bilingual education picture in California. Proposition 227, passed by the California voters in June 1998 dramatically changed the way schools will provide bilingual education in the future. The proposition states that “it is resolved that: all children in California public schools shall be taught English as rapidly and effectively as possible.” Proposition 227 requires that all children be taught in English and eliminate most bilingual education classes.

Proposition 227 also appropriates \$50 million each year for ten years for “free or subsidized programs of adult English language instruction to parents or other members of the community who pledge to provide personal English language tutoring to California school children with limited English proficiency.” This

appropriation was to have started in 1998–1999, but the appropriation was not made. Assuming it is appropriated in the future, substantial resources may be available for school districts to provide English language instruction to community members and parents to help with English language instruction for children in the schools.

Extent of Participation: Not reported.

XI. EARLY CHILDHOOD EDUCATION

See Section on Child Development Below

XII. OTHER CATEGORICAL PROGRAMS

School Improvement Program (SIP)

Funding in 1998–1999: \$394.5 million.

Percentage of Total State Aid: 1.6%.

Description: The School Improvement Program provides assistance to schools for locally determined improvement projects. School sites must submit a plan to the state indicating what they plan to do with the funds and how they will be used. Each school must have a site advisory council to help in the planning. This council must include parents, teachers, and the principal. Funds are distributed to schools on the basis of their applications and available funds, although once a school receives the funds, the grant becomes an annual occurrence. Most schools in the state are currently participating in the program.

Extent of Participation: Not reported.

Instructional Materials

Funding in 1998–1999: \$422.1 million.

Percentage of Total State Aid: 1.7%.

Description: This includes three programs, instructional materials for grades 9–12 (\$39.001 million), instructional materials for standards aligned core curriculum (\$250 million) and instructional materials for K–8 (\$133.099 million).

Extent of Participation: Not reported.

Mentor Teacher Program

Funding in 1998–1999: \$80.6 million.

Percentage of Total State Aid: less than 1%.

Description: The mentor teacher program was established by SB 813 as part of an effort to upgrade the teaching profession. The measure authorizes experienced teachers with exemplary teaching ability to serve as “mentors” to other teachers, particularly new teachers, and provides for each mentor to receive a stipend of approximately \$5,845 annually (adjusted for inflation) for performing this additional work. In addition, a stipend of \$292 per mentor teacher is provided to school districts to provide support including travel funds, substitute teacher time and other support functions.

Extent of Participation: Not reported.

School Desegregation Programs

Funding in 1998–1999: \$632.8 million.

Percentage of Total State Aid: 2.6%.

Description: State reimbursement of school desegregation costs is not required by the California Constitution. However, under the provisions of current law, the state reimburses school desegregation programs. These reimbursements are funded from the General Fund based on claims filed by school districts (\$490.8 million for court-ordered desegregation and \$142.0 million for voluntary desegregation).

Extent of Participation: Not reported.

Child Nutrition

Funding in 1998–1999: \$75.6 million.

Percentage of Total State Aid: less than 1%.

Description: The Department's Office of Child Nutrition Services administers the state child nutrition and Pregnant and Lactating Students programs. It also supervises the federally funded National School Lunch and Breakfast programs and the Child Care Food program. These programs assist schools in providing nutritious meals to pupils, with emphasis on providing free or reduced price meals to children from low-income households.

Extent of Participation: Not reported.

Child Development

Funding in 1998–1999: \$794.6 million.

Percentage of Total State Aid: 3.2%.

Description: The Child Development Division (CDD) within SDE administers a variety of subsidized child care and development programs which provide services to children from low-income families and to those with special needs through contracts with schools and community organizations. The major goals of these programs are to (a) enhance the physical, emotional, and developmental growth of participating children, (b) assist families to become self-sufficient by enabling parents to work or receive employment training, and (c) refer families in need of various support services to appropriate agencies. The CDD also administers several programs which provide indirect services such as capital outlay, child care referrals to parents, and training for providers.

Extent of Participation: Not reported.

XIII. TEACHER RETIREMENT

Funding in 1998–1999: \$245.1 million.

Percentage of Total State Aid: 1%.

Description: The retirement program for certificated staff is the State Teachers' Retirement System (STRS). Local educators contribute approximately 8.33% of their salary to STRS, and local districts contribute an additional 8.4%. Classified employees participate in the California Public Employee's Retirement System (PERS), funded by employee and employer contributions of 7.5% of salary each. Neither PERS nor STRS members participate in FICA

Extent of Participation: Not reported.

XIV. TECHNOLOGY

Funding in 1998–1999: \$191.4 million.

Percentage of Total State Aid: less than 1%.

Description: The Digital High School Program provides grants to high schools to purchase hardware, software and infrastructure, and to train staff in its use. Schools that apply to the program are selected on the basis of a random draw each year. The educational technology program coordinates all of the technology efforts of the California Department of Education. \$136.0 million for Digital High School Program \$55.4 million for educational technology.

Extent of Participation: Not reported.

XV. CAPITAL OUTLAY AND DEBT SERVICE

Leroy F. Greene Lease-Purchase Law of 1976

Funding in 1998–1999: \$6,000.0 million.

Percentage of Total State Aid: Not applicable.

Description: California has operated a program to help school districts finance school construction since the late 1940s. The program used state general obligation bonds to pay for the construction of schools. These facilities were then leased to local school districts for \$1 a year for 40 years. After 40 years, the school facility became the property of the district. Prior to passage of Proposition 13, this program was used as a last resort by school districts. However, Proposition 13's elimination of all ad valorem taxes made reliance on the state more critical. Even since 1986 when local taxing districts were granted the authority to levy property taxes for general obligation bonds (Proposition 49), the

state has been the largest source of funds for new school construction. Local bond measures require a 2/3 majority vote for approval, while state bonds can be passed with a simple majority (CAL EDUCATION CODE, Chapter 22, Part 10).

In 1998, California voters approved a total of \$9.2 billion in general obligation bonds to support school construction. Of the \$9.2 billion in bonds approved in 1998, \$6 billion was for K–12 education and the balance for higher education. Earlier in this decade, California voters have approved school bond measures totaling an additional \$6 billion for K–12 education. By 1998 all of those funds had been committed to districts for school facility construction or renovation.

The Mello-Roos Community Facility Act of 1982 (CAL EDUCATION CODE §§ 53311 *et seq.*) authorizes school districts to establish Community Facility Districts, within which bonded indebtedness may be incurred and a property tax levied. These funds may be used for building new schools or to modernize existing school facilities. The principal advantage to a Mello-Roos District is that it does not have to encompass the entire school district. Since the Community Facility District can be formed to include only the area that would benefit from the planned facility, there would seem to be a greater likelihood of garnering the 2/3 majority needed for approval of the bond measure. Since 1983, 30 school districts have held Mello-Roos elections. Nineteen (63.3%) of those were successful, accounting for over \$1.0 billion in school construction funds for the seventeen districts involved. Just over \$370 million in Mello-Roos bond measures were rejected in 11 other district elections during the same period.

In 1978, SB 201 (CAL EDUCATION CODE § 65970) authorized the levying of fees on developers of new homes for school projects. This measure was part of the response to Proposition 13's ban on ad valorem property taxes. In the early 1980s, the incidence of these fees, levied by counties and cities as well as school districts, began to increase prompting protests from developers. In 1986, the Legislature passed AB 2926 which allowed school districts to directly levy fees on new homes as well as on commercial and industrial projects. In exchange, school districts were prohibited from levying most other kinds of fees. The fees were capped at a single state-wide rate which today amounts to \$1.72 per square foot for residential projects and \$0.28 per square foot for commercial and industrial projects. In addition, these developer fees must be used for school construction or modernization projects, and can not be used for school operations.

An important element of developer fees is the “match” requirement for districts receiving building funds from the State School Building Lease-Purchase Fund. The match requires districts to contribute the amount they could receive through

developer fees as their share of the school construction costs for approved projects. The procedure for determining when a district is in “the match” is complex. Generally, once a district's application has received Phase I approval, the district is “in the match” and must rebate to the state an amount equal to the amount which could have been collected if the maximum allowable developer fees had been imposed on all projects in the district. This match condition lasts until the district receives its certificate of occupancy for the school facility. There are some exceptions to the match requirement. For example, with approval from the Office of Local Assistance, a district can deduct from the match requirement certain costs of interim portable classroom facilities while they are waiting for approval and construction of a school. The match also may be temporarily suspended if the district has fully qualified to move to the next phase but the state runs out of bond funds and cannot meet its obligations. Districts that do not collect developer fees, or that impose fees lower than the maximum allowed by law must still provide the full match from local funds.

Districts that don't participate in the State School Facility Lease-Purchase program may use all of the developer funds they receive for their own construction needs. A number of large districts have opted to construct schools solely with local resources, and as a result, keep all of their developer fees for local construction. A number of other districts use a variety of methods to fund school construction, financing some projects through the State School Building Lease-Purchase Program and others through local sources. Unfortunately, there are no accurate data on the number of schools that are built in California without state assistance, although officials estimate that there are some 200 districts currently planning or constructing school facilities who are not part of the State School Building Lease-Purchase Program. The Office of Local Assistance is in the process of conducting a state-wide accounting of all public school facilities.

Emergency Temporary Classroom Program. This program allocates funds for the acquisition, installation, and relocation of portable classroom facilities, including furnishings, to be rented to districts with overcrowded schools. There were approximately 6,100 portable classroom available for rent through the state in 1990–1991.

Deferred Maintenance Program. This program provides matching assistance to local school districts for deferred maintenance. Districts are eligible for matching funds up to 1/2 of 1% of their general fund budget for these programs.

Year-Round School Incentives. School districts that increase their enrollment capacity through the use of year-round education are eligible for both one-time

implementation grants and annual operating grants. Under the operating grant program, school districts which accommodate through the use of year-round operations additional enrollment equal to at least 5% of each applicant school's capacity (using a traditional, nine-month calendar) are eligible to receive incentive funding. The program is intended to "share" with such districts between 50% and 90% (depending upon the percentage of "excess capacity" accommodated) of the state's avoided costs from not building a new school facility, based on a "statewide average" cost of land, construction, and financing. In exchange for receiving funding, school districts must withdraw any requests for state school facilities aid to build new facilities for the number of pupils accommodated through year-round operations and claimed for payment.

Under the implementation grant program, school districts may receive one-time grants of \$25 per pupil (not to exceed \$100,000 per school site) to help defray the costs of school-site conversion to year-round education.

To be eligible for either type of grant under the Chapter 1261 program, each school district must demonstrate that (a) there is "substantial overcrowding" in the school district or its high school attendance areas, (b) the district will use the grants to implement or operate year-round education, and (c) the district is eligible for state assistance to build new schools under the Lease-Purchase program.

Extent of Participation: Not reported.

XVI. STANDARDS/ACCOUNTABILITY MEASURES

California returned to state-wide standardized testing in 1997–1998, and spent approximately \$30 million on the endeavor in 1998–1999. The STAR tests, which rely on the Stanford 9 test, are given to all children in grades 2–11 each year.

In addition, a special session of the California Legislature in 1999 (which ran concurrently to the regular session that year) with the guidance of the state's new governor, passed a series of new school accountability programs. The governor's budget included \$444 million for a number of new programs including the READ (Raising Expectations Achievement and Development in Schools) program. This included programs to improve reading skills among students, establishment of new professional quality initiatives, including a peer assistance and review

program, greater school accountability through the development of an academic performance index and state intervention in under performing schools.

XVII. REWARDS / SANCTIONS

None.

XVIII. FUNDING FOR NON-TRADITIONAL PUBLIC SCHOOLS

Another major reform initiated in California has been charter schools. The initial legislation, passed in 1992 allows for a total of 100 charter schools in the state, and no more than 10 in any individual school district. Subsequent legislation has increased the number of allowable charter schools substantially.

Initially, charter schools were approved by local school boards, and funding was allocated through local school districts. Recent legislation allows for direct funding of charter schools as well. At the present time, charter schools may select the funding mechanism they prefer.

In some school districts, charter schools have elected to remain fiscally dependent on the local school district as they feel they have greater financial resources. In these situations, the charter school receives funding as if it is a regular school in the district.

XIX. AID TO PRIVATE K-12 SCHOOLS

No state aid provided.

XX. RECENT/PENDING LITIGATION

None reported.

XXI. SPECIAL TOPICS

The Mega Item

The California Governor has line item budget veto authority. To limit a governor's ability to veto categorical programs, since 1992-1993, the State Budget Acts have consolidated most categorical programs into a single "mega-item" appropriation. As a result a funding reduction in the mega-item would

mean all programs in the mega-item would be reduced by an equal percentage, eliminating the ability of the governor to cut or eliminate specific programs.

Another advantage of the mega-item is that in 1998–1999 up to 15% of the amount allocated for any mega-item program may be transferred to an other mega-item program as long as the total transfer to any individual program is less than 20% of its total allocation. This provides districts with substantial flexibility in the use of their categorical program funds.

Class Size Reduction

As the recession ended in California, and the state's revenue growth provided more money for education, the legislature, at the urging of then Governor Pete Wilson, enacted the Class Size Reduction (CSR) program in 1996. Effective with the 1996–1997 school year, districts received an incentive grant of \$650 per pupil for each student in a class of 20 or less in grades K–3. Districts had to reduce class size in grade 1 first, then in grade 2, and then in either kindergarten or grade 3. The state also offered a one time grant of \$25,000 per new or renovated classroom. In 1997–1998, the per pupil grant was increased to \$800 and the facilities assistance to \$40,000. It remained at that level for 1998–1999.

In the first three years of implementation, the state spent over \$4 billion to implement CSR. However, at the end of the 1997–1998 school year, nearly 100% of 1st and 2nd graders were in classes with 20 or fewer students, and over 70% of students in kindergarten and 3rd grade were also in such smaller classes. A total of 1.6 million children were in reduced size classes by the end of the 1997–1998 school year. Data for 1998–1999 were not available.