

DOCUMENT RESUME

ED 084 690

EA 005 671

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TITLE California's New School Finance Law.
SPONS AGENCY Bureau of Elementary and Secondary Education
(DHEW/OE), Washington, D.C. School Finance Study
Unit.
PUB DATE Sep 73
CONTRACT OEC-0-73-1194
NOTE 33p.; Paper presented at National Symposium on State
School Finance Reform (Washington, D.C., November 26
& 27, 1973); Related documents are EA 005 664 through
670 and EA 005 672 through 689
EDRS PRICE MF-\$0.65 HC-\$3.29
DESCRIPTORS Early Childhood Education; Educational
Disadvantage; *Educational Finance; Elementary
Schools; Equal Education; *Equalization Aid;
*Foundation Programs; *Property Taxes; Secondary
Schools; *State Laws; Symposia
IDENTIFIERS California; *State School Finance Reform

ABSTRACT

Following a touch-and-go struggle in the California legislature, a school finance reform law, known as the Property Tax Relief Act of 1972, was passed. The contents of this act were affected in part by the California Supreme Court decision--Serrano vs Priest. The new law includes boosts in foundation programs, expressed in dollar amounts per pupil (ADA); and two new categorical aid programs. One program is designed to improve early childhood education and the other is drafted to aid educationally disadvantaged children. This report discusses the Act and examines its effects on educational finance in California. (Author/JF)

ED 084690

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September, 1973

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Following a touch-and-go struggle in the Legislature, a new public school finance law was approved on December 1, 1972 by a vote of 29 to 10 in the California State Senate. Since 27 favorable votes were required for enactment, there were two votes to spare. Prior to this action, the State Assembly had approved a similar measure by a vote of 64 to 8. The bill, S.B. 90, includes several compromises worked out by Governor Reagan and speaker Morretti.

The uncertainty surrounding the fate of this measure, until the final vote in the Senate, is revealed by the message to public school administrators earlier during the same week in the November 27 issue of Sacramento Education Legislative Letter:

SCHOOL FINANCE IN OUR TIME? - Like peace in our time, school finance in our time seems imminent but yet so far away. Rumors and counter rumors fill the Sacramento corridors and yet as we go to press nothing concrete is in evidence. It is reported that the conference committee on SB 90 has agreed upon a conference report and that it will be forthcoming probably today (Monday, November 27). According to the best sources of information we have, the report will contain more funds for compensatory education, some renter relief, additional funds for school finance in the current fiscal year. The \$64 question is still whether or not this will be sufficient to pick up the two additional votes necessary on the Senate side.

The final compromises related to compensatory education (often referred to as the "urban factor") and property tax relief, as well

as general support for public schools. For many legislators, property tax relief was the major concern, and the Act is known as the "Property Tax Relief Act of 1972."

In addition to the conflicting points-of-view concerning property tax relief and public school finance, the Serrano decision affected the legislative process. In this decision, the California Supreme Court, after reviewing disparities among school districts in assessed valuation per pupil and the effects of California's foundation program for supporting public schools, pointed out that:

Above the foundation program minimum (\$355 per elementary student and \$488 per high school student), the wealth of a school district, as measured by its assessed valuation, is the major determinant of educational expenditures.

The Court then declared:

The foundation program partially alleviates the great disparities in local sources of revenue, but the system as a whole generates school revenues in proportion to the wealth of the individual district.

This statement of the Court seems to invalidate the foundation program concept as it is used in nearly all of the fifty states. In California, as in most states, the disparities in local sources of revenue are only partially offset by state aid, and local school districts are permitted to supplement the equalized revenues included in the foundation program with unequal local supplements derived from unequal local revenue sources. Such supplements, the California Court declared, make the "quality of a child's education a function of the wealth of his parents and neighbors."

The Serrano decision added one more dimension of controversy to the school finance problem. Several remedies were proposed, including both "full state funding" and "power equalization." A statewide property tax proposal, under which the foundation program would be financed in full from state tax sources, received extensive support, but was vigorously opposed by representatives from San Francisco and other high-wealth school districts. After lengthy presentations by rival advocates, the legislature chose to retain and substantially increase the state foundation program.

In addition to the boost in the foundation programs, expressed in dollar amounts per pupil (ADA), the new law included two new categorical aid programs. One was for improving early childhood education, and the other was for educationally disadvantaged children.

The total amount of new state money for public school support for the school year 1973-74 is \$561 million divided as follows:

\$225 million for improvements in Equalization Aid
\$ 25 million for Early Childhood Education Program
\$ 82 million for Educationally Disadvantaged
\$229 million for Property Tax Relief

The major tax relief provision of S.B. 90 are:

1. Property tax exemption raised from \$750 to \$1750;
2. State income tax credit or payment for renters ranging from \$25-\$45.
3. Business inventory tax exemption raised from 30-45% in 1973-74 and to 50% thereafter.

4. Increase in grants to public assistance recipients of \$2 per month to offset the sales tax increase.
5. Limit imposed on city, county, and special district property tax rates; increases in tax rates may be voted by the electorate.
6. Tax limitations on school boards, based upon revenues per pupil, instead of tax rates.

To provide additional state revenues, S.B. 90 includes the following revenue provisions:

1. 1% increases in sales tax, effective 6/1/73. (In subsequent action, the effective date was postponed.)
2. 1.4% increase in bank and corporation tax rates, effective 7/1/73.
3. State surplus and federal revenue sharing funds used to balance the program.

The New Categorical Aid for
Educationally Disadvantaged Youth

After several years of effort to include an "urban factor" in the state school support formula, spearheaded by the large city school systems, the Legislature enacted a new categorical aid program for educationally disadvantaged youth. The purpose of this part of S.B. 90 is revealed by the declaration of intent:

It is the intent of the Legislature to provide quality educational opportunities for all children in the California public schools. The Legislature recognizes that because of differences in family income, differing language barriers, and pupil transiency, differing levels of financial aid are necessary to provide quality education for all students.

The new program is to be administered by the Superintendent of Public Instruction, utilizing a statutory formula to ascertain the

maximum apportionments allowable to school districts. The law provides:

From the funds appropriated by the Legislature for the purposes of this chapter, the Superintendent of Public Instruction, with the approval of the State Board of Education, shall administer this chapter and make apportionments to school districts to meet the total approved expense of the school districts incurred in establishing education programs for pupils who qualify economically and educationally in preschool, kindergarten, or any of grades 1 through 12, inclusive. Nothing in this chapter shall in any way preclude the use of federal funds for educationally disadvantaged youth. Districts which receive funds pursuant to this chapter shall not reduce existing district resources which have been utilized for programs to meet the needs of low-income students.

Maximum apportionments allowable to school districts shall be determined by the following factors:

(a) An index of 'potential impact of bilingual-bicultural pupils' determined by dividing the percent of pupils in the district with Spanish and Oriental surnames, and Indian pupils, as determined by the annual ethnic survey conducted by the Department of Education, by the statewide average percentage of such pupils for unified, elementary, or secondary districts, as appropriate.

(b) A ratio of the district's 'index of family poverty,' defined as the district's Elementary and Secondary Education Act, Title I entitlement, divided by its average daily attendance in grades 1 through 12, or any thereof maintained, divided in turn by the state average index of family poverty for unified, elementary, or secondary districts, as appropriate.

(c) A ratio of the district's 'index of pupil transiency,' as computed from the relationship between the district's average daily attendance and its total annual enrollment, divided by the state average index of pupil transiency for unified, elementary, or secondary districts, as appropriate.

The district's total maximum apportionment under this chapter shall be determined by computing the product of (1) one-third the sum of the above three factors, except that if the resulting figure is higher than 2, the resulting figure shall be deemed to be 2, and if the resulting figure

is lower than 1 no entitlement shall be computed for such a district, (2) the number of pupils receiving aid for dependent children support, and (3) a constant amount of three hundred dollars (\$300), or such amount as the Superintendent of Public Instruction may determine so that the sum of all allocations will not exceed the funds appropriated by the Legislature for the purposes of this chapter.

A new approach to "categorical aids" is indicated by the emphasis upon program effectiveness. Earlier efforts to obtain additional amounts of state school funds for disadvantaged youth--using an urban pupil weighting method--were rejected. In S.B. 90, additional funds are made available only if the school district develops effective plans for the use of the additional funds. Specifically, the law provides:

In approving programs under this chapter, the State Board of Education shall give due consideration to the effectiveness of the program and shall not continue in operation any program that, upon evaluation, has been shown to be of low effectiveness and which has only limited possibility of improved effectiveness.

For the fiscal year 1973-1974 and for each year thereafter, districts which demonstrate a high degree of program effectiveness shall receive amounts up to their entitlement limits. Districts which demonstrate low levels of program effectiveness shall continue to receive their initial apportionments but the Superintendent of Public Instruction may reduce the additional computed apportionments due such districts, if he determines that such programs have limited possibilities of improved achievement.

The Superintendent of Public Instruction shall apportion the funds available for programs in accord with procedures specified in this chapter and policies which may be adopted by the State Board of Education. Funds shall be allocated to each district within its entitlement based upon a plan submitted by the district to the Superintendent of Public Instruction, and approved by the State Board of Education. The plan shall include

(1) an explicit statement of what the district seeks to accomplish, (2) a description of the program and activities designed to achieve these purposes, and (3) a planned program of annual evaluation, including a statement of the criteria to be used to measure the effectiveness of the program.

Although the need for an urban factor was emphasized by representatives of the city school systems, the Legislature allocated the additional funds for supplemental educational programs and reluctantly authorized the use of limited amounts for other unusual urban costs. The following provision concerning use of these funds for protection or repair of damaged school buildings illustrates this attitude:

In approving projects under the 'educational needs factor formula,' as described above, the Superintendent of Public Instruction, with the concurrence of the Director of Finance, may, upon the request of the applicant district, designate a portion of the district's entitlement which may be expended for noninstructional costs, including, but not limited to, costs for vandalism, security, and insurance. In no event, shall the amount of funds in the aggregate designated for such purposes for all districts in the state exceed two million dollars (\$2,000,000).

Modifications of the Foundation Program

In addition to increases in the foundation program amounts per pupil (ADA) for the 1973-74 school year, S.B. 90 makes these amounts subject to change each year. It directs the Superintendent of Public Instruction to increase or decrease the foundation program levels per pupil each year, reflecting changes in the statewide average assessed value of taxable property per pupil. Specifically, the

law provides:

(c) Commencing with the 1974-75 fiscal year, the unit amounts under subdivisions (a) and (b) of this section shall be considered to be increased or decreased, as the case may be, by an amount equal to the percentage increase or decrease of the statewide ratio of assessed valuation per unit of kindergarten through grade 12 statewide average daily attendance, using in such ratios the data for the preceding year compared with the second preceding year.

The Superintendent of Public Instruction shall adjust the foundation program levels prescribed for elementary and high school districts by the percentage increase or decrease in the statewide ratio of assessed valuation per unit of statewide elementary and high school average daily attendance using in such ratios the data for the preceding year compared with the second preceding year.

The foregoing provision endeavors to make the foundation program amounts change each year, reflecting economic changes, without requiring a specific act of the Legislature.

The new foundation program continues special provisions for necessary small schools, directing the Superintendent of Public Instruction to:

(a) For each district on account of each necessary small school (giving regard to the number of teachers actually employed or average daily attendance), he shall make one of the following computations, whichever provides the lesser amount:

(1) For each necessary small school which has an average daily attendance during the fiscal year of less than 26, exclusive of pupils attending the seventh and eighth grades of a junior high school, and for which school at least one teacher was hired full time, he shall compute for the district eighteen thousand eight hundred seventy-five dollars (\$18,875).

(2) For each necessary small school which has an average daily attendance during the fiscal year of 26 or more and less than 51, exclusive of pupils attending the seventh and eighth grades of a junior high school, and for which school at least two teachers were hired full time for more than one-half of the days schools were maintained, he shall compute for the

district thirty-seven thousand seven hundred fifty dollars (\$37,750).

(3) For each necessary small school which has an average daily attendance during the fiscal year of 51 or more but less than 76, exclusive of pupils attending the seventh and eighth grades of a junior high school, and for which school three teachers were hired full time for more than one-half of the days schools were maintained, he shall compute for the district fifty-six thousand six hundred twenty-five dollars (\$56,625).

(4) For each necessary small school which has an average daily attendance during the fiscal year of 76 or more and less than 101, exclusive of pupils attending the seventh and eighth grades of a junior high school, and for which school four teachers were hired full time for more than one-half of the days schools were maintained, he shall compute for the district seventy-five thousand five hundred dollars (\$75,500).

(b) For each district on account of each small school not determined to be a necessary small school under Section 17655 he shall make one of the following computations, whichever applies:

(1) If the total of the units of average daily attendance of the district during the fiscal year, exclusive of pupils attending the seventh and eighth grades of a junior high school, is less than 901, he shall multiply the units of average daily attendance in the school by seven hundred fifty-five dollars (\$755).

(2) If the total of the units of average daily attendance in the district during the fiscal year, exclusive of pupils attending the seventh and eighth grades of a junior high school, is 901 or more, he shall multiply the units of average daily attendance by seven hundred sixty-five dollars (\$765).

For larger elementary school districts, a specific amount per pupil (ADA) is provided in the foundation program:

For each elementary school district which, exclusive of pupils attending the seventh and eighth grades of a junior high school, has an average daily attendance of 101 or more but less than 901 during the fiscal year, he shall compute an amount determined by multiplying the total average daily

attendance, exclusive of pupils attending the seventh and eighth grades of a junior high school and pupils for whom a foundation program is computed under Section 17655.5, by seven hundred fifty-five dollars (\$755).

For each elementary school district which, exclusive of pupils attending the seventh and eighth grades of a junior high school, has an average daily attendance of 901 or more during the fiscal year, he shall compute an amount determined by multiplying the total average daily attendance, exclusive of pupils attending the seventh and eighth grades of a junior high school, and pupils for whom a foundation program is computed under Section 17655.5, by seven hundred sixty-five dollars (\$765).

For necessary small high schools, the law provides a table based upon a combination of average daily attendance and numbers of teachers employed:

(a) For each district on account of each necessary small high school the Superintendent of Public Instruction shall make one of the following computations selected with regard only to the number of certificated employees employed or average daily attendance, whichever provides the lesser amount:

Average daily attendance	Minimum number of certificated employees	Amount to be computed
1- 20	less than 3	\$ 16,519
		per teacher
1- 20	3	83,772
21- 40	4	100,291
41- 60	5	116,810
61- 75	6	133,329
76- 90	7	149,848
91-105	8	166,367
106-120	9	182,886
121-135	10	199,405
136-150	11	205,924
151-180	12	232,443
181-220	13	248,962
221-260	14	265,481
261-300	15	282,000

The foundation program amounts for high schools, which have not been determined to be necessary, are computed on a different basis:

(b) For each district on account of each small high school not determined to be a necessary small high school under Sections 17663, 17663.5, and 17663.7, he shall make one of the following computations, whichever applies:

(1) If the total of the units of average daily attendance in the district during the fiscal year is less than 301, he shall multiply the units of average daily attendance during the fiscal year in the school by nine hundred forty dollars (\$940).

(2) If the total of the units of average daily attendance in the district during the fiscal year is more than 300, he shall multiply the units of average daily attendance during the fiscal year in the school by nine hundred fifty dollars (\$950).

For purposes of this section a 'certificated employee' is an equivalent full-time position of an individual holding a credential authorizing service, and performing services in grades 9 through 12 in any secondary school. Any fraction of an equivalent full-time position shall be deemed to be a full-time position.

The foundation program established by this section for high schools with an average daily attendance of less than 301 shall not apply to any high school established after July 1, 1961 unless the establishment of such schools has been approved by the Superintendent of Public Instruction.

The foundation program amount per pupil for high school districts with more than 300 students (ADA) was increased to \$950 by the new law. For unified school districts, operating both elementary schools and high schools, this amount per high school student is increased by \$20 to \$970. A corresponding "unification bonus" is allowed for elementary school pupils in unified school districts, making the foundation program amount for such elementary school pupils \$785.

Ignoring the special provisions for small schools, the new foundation program amounts per pupil (ADA) compared with the guaranteed income per pupil for low-wealth districts during the preceding year are:

	<u>Elementary Pupils</u>	<u>High School Pupils</u>
Unified Districts (new law)	\$785	\$970
Unified Districts (prior year)	660	684
Non-Unified Districts (new law)	765	950
Non-Unified Districts (prior year)	640	664

Since approximately two-thirds of all pupils are in unified school districts and assuming the ratio of elementary pupils to high school pupils is 2 to 1, the overall state average foundation program amount per pupil (ADA) is approximately \$840. This is a substantial increase over the former foundation program amounts. It also exceeds the average current cost of education per pupil (ADA) in California public schools during the 1970-71 school year, which was \$824. It is expected that foundation program revenues plus State and Federal categorical aids will amount to approximately 91% of current school revenues during the 1973-74 school year.

S.B. 90 and Serrano

In enacting S.B. 90, the Legislature rejected the "full state funding" and "power equalization" approaches to the Serrano problem. Advocates of these approaches are pushing their views in the Los Angeles Superior Court, where the Serrano case is being reviewed. The original California Supreme Court decision was based upon a demurer, and, after the Supreme Court's decision, the case was remanded to the Superior Court to determine if the allegations of the plaintiffs (their description of the California school finance system and its relationship to educational quality) are true.

In the meantime, S.B. 90 has been enacted, substantially changing

the facts. In this sense, S.B. 90 is being tried to determine if it violates the Federal or State Constitutions.

During the course of the trial of S.B. 90 in the Los Angeles Superior Court, the U.S. Supreme Court issued its ruling in the Texas case. This ruling indicates that S.B. 90 does not violate the Federal Constitution, but leaves open the possibility that it may violate the California Constitution.

To answer this question, it is necessary to look carefully at three aspects of S.B. 90:

1. The property tax equalization provisions of S.B. 90, especially as they relate to financing the foundation program.
2. The rapidity with which divergent school expenditure rates converge under S.B. 90.
3. The affects of the right to vote additional local school property taxes under S.B. 90.

Before examining these three aspects of S.B. 90, a brief look at school finance in California prior to enactment of S.B. 90 is useful. In 1971, there were 244 unified school districts in California, enrolling about two-thirds of all public school children. In addition, there were 117 high school districts and 706 elementary districts. Among the latter, there were 174 school districts with less than 100 pupils.

Conspicuous disparities are found by comparing the assessed valuation of taxable property per pupil in the extremely small elementary school districts. For example, there are 21 separate elementary school districts in the Shasta Union High School District. Of the 21 elementary school districts, 11 have less than 100 pupils, and one of these (with only 37 pupils) has a tax base of \$750,000 per pupil (ADA). Another larger elementary school district has a tax base of less than \$7,000 per pupil.

This ratio of more than 100 to 1 in the taxable wealth behind each child is often cited to indicate existing disparities in the financial base for public schools in California. The obvious remedy for such inequalities is in school district reorganization. If the 21 elementary school districts had been unified with the Shasta Union High School District, the assessed valuation per elementary school pupil in the unified district would have been \$18,400 in the 1970-71 school year, which is slightly more than the state average. Under this arrangement, the frequently cited great disparities in the tax bases of small school districts would disappear.

But, even if all districts were unified, there would be substantial differences in taxable wealth per pupil. Chart I shows the distribution of assessed valuation of taxable property per elementary school pupil (ADA) in unified school districts during the 1970-71 school year. This chart is constructed so that the percent of all pupils (ADA) is indicated on the horizontal dimension. The

long flat section of the assessed valuation per pupil line represents the Los Angeles City School System, which serves approximately 20% of all pupils in unified school districts. Among the high-wealth school districts, San Francisco stands out, serving more than 2-1/2% of all children in unified school districts.

Chart I indicates that the great disparities in wealth at the upper end of the distribution are confined to schools serving a relatively small percent of the school children. Moving toward the right, after the 90% point is passed, the assessed valuation per pupil increases very rapidly.

A similar analysis, based upon assessed valuation of taxable property per high school student (ADA), is shown in Chart II. In California, state foundation programs and state equalization payments are computed separately for elementary and high school pupils, even in unified school districts. For this reason, a school district may be entitled to state equalization aid for elementary pupils, but not for high school pupils. For example, Long Beach would be eligible for state equalization payments for elementary pupils, based upon Chart I, because it falls below the horizontal line indicating the break point. But, for its high school pupils, based upon Chart II, it would not be entitled to equalization aid, since it falls above the horizontal line indicating the break point.

Although Charts I and II indicate the distribution of taxable wealth per pupil, they do not indicate the expenditure rate per pupil.

This is shown in Chart III. It will be noted immediately that the expenditure disparities are not as great as disparities in taxable wealth, reflecting the affects of the existing state foundation programs and state and Federal categorical aids. For example, the Compton School District, serving a predominately black community near Los Angeles, is near the bottom in taxable wealth per pupil, as shown in Charts I and II. But, in expenditures per pupil, the Compton School District is in the upper 25%, surpassing Los Angeles and San Diego.

Chart III provides a good picture of the inequalities in expenditure rates per pupil among the unified school districts in California during the 1970-71 school year. It shows effects of the state aid program, which assures a minimum rate of expenditure per pupil without restricting amounts spent per pupil in districts which have sufficient local taxable resources and a desire to spend more.

An "Index of Unequal Expenditures Per Pupil" was calculated from the information shown in Chart III. This Index is the percent of the total funds expended for current purposes in all unified public school districts, which would need to be shifted from high-spending school districts to low-spending school districts, so that all school districts would be spending the same amount per pupil. For the unified school districts in California during the 1970-71 school year, the Index of Unequal Expenditures Per Pupil was 5.8%. Similar indexes were computed for the 117 high school and the 709 elementary school

districts. They were respectively 5.7% and 6.1%.

Comparable indices are not available for other states, but it was possible to compute a similar index for the expenditure rates per pupil in the 46 high schools maintained by the Los Angeles City School System. The Index of Unequal Expenditures Per Pupil for these high schools was 4.0%. The index for elementary schools maintained by the Los Angeles City school System was 7.0%.

This analysis indicates that, even when resources are allocated among schools by a central authority, there are unequal expenditures per student. This fact suggests that, under ideal conditions, the "Index of Unequal Expenditures Per Pupil" will not be zero, especially if there are small school districts.

For example, the five California unified school districts with the highest current expense per pupil during the 1969-70 school year were:

<u>District</u>	<u>Current Expense Index</u>	<u>ADA</u>	
		<u>Elementary</u>	<u>High School</u>
Emery	2.94	427	166
Borrego Springs	2.48	176	69
Death Valley	1.87	117	47
Berkeley	1.84	10,797	4,829
Beverly Hills	1.82	3,317	2,474

In the foregoing list, the three highest-spending districts have low enrollments, and their high costs per pupil presumably reflect high costs usually associated with small isolated schools. But the high-expenditure rates per pupil at Berkeley and Beverly Hills probably represent additional

or superior school services. A study of their budgets and programs is needed to describe the educational advantages, if any, provided for their students.

Studies of other atypical school districts are needed. For example, in two California school districts (South Kern and Colusa) the taxable wealth per pupil is more than 50% above the state average, yet the expenditure rates per pupil in these districts are less than the state average. Similarly, in two other California school districts (Stockton and Compton) the taxable wealth per pupil is substantially less than the state average, yet the current expense per pupil in these districts is more than the state average. These exceptions need to be investigated to elucidate more fully the relationship between taxable wealth per pupil and expenditures per pupil in different school districts.

Since we do not have actual expenditure information for California public schools under S.B. 90, it is necessary to estimate how the Index will be modified by the new law. To do this, it is necessary to estimate the percent of all school revenues that will be "equalized" under S.B. 90.

Revenues available to all students on an "equal" basis are of two general types:

1. Foundation program funds.
2. State and Federal categorical aids, which are usually distributed on a "need" basis.

It is possible to estimate the former by calculating the average foundation program amount per student under S.B. 90. The foundation program amounts are:

High school students in unified districts.....	\$970
High school students in high school districts.	950
Elementary pupils in unified districts.....	785
Elementary pupils in elementary districts with more than 900 pupils.....	765
Elementary pupils in elementary districts with less than 900 pupils.....	755

For elementary schools with less than 100 pupils and for high schools with less than 300 pupils, additional funds are allowed in the foundation program, based upon the number of teachers employed. For example, an isolated high school with 45 students (ADA) would be allowed to employ five teachers, and the foundation program amount would be \$2,471 per pupil.

Based upon the number of students in each of these foundation program categories, it is possible to estimate the average foundation program amount per pupil under S.B. 90. This amount is \$840 for the 1973-74 school year.

The categorical aids and other public school revenues derived from sources other than unequalized local property taxation are estimated as follows:

Federal aids (including vocational education, compensatory education, etc.)	\$327.2 million
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State program for disadvantaged (new)	\$ 82.0 million
State Early Childhood program (new)	25.0
State Special Education program	144.0
State Pupil Transportation aid	36.0
State Bilingual program	0.1
Indian Education funds	0.4
High School Adult Education	1.4
Teacher Retirement contribution	43.2
Driver Training funds	17.0
Miller-Unruh program	18.8
Instructional Television funds	0.6
State Compensatory Education (old)	10.8
County and Local funds from non-property tax sources	<u>66.4</u>
TOTAL	\$772.9 million

To convert the foregoing amounts to a per pupil basis, it is necessary to estimate the ADA in all elementary, high school, and unified school districts for the 1973-74 school year. For the 1970-71 school year, the total ADA was 4,692,295. A review of recent information and trends suggests a small decrease for 1973-74. The estimated total ADA for 1973-74 is 4,646,000.

If the total estimated revenues for categorical aids and other non-local property tax sources is divided by the estimated ADA, the amount per pupil is \$156.

To complete the calculation, it is only necessary to estimate the total expenditures per pupil. The total general fund expenditure per pupil (excluding school lunches and community services) during the 1970-71 school year was \$844.49. A review of more recent data and an analysis of the affect of S.B. 90 upon school expenditures indicates that the corresponding total of general fund expenditures in 1973-74 will be approximately \$1,099 per pupil (ADA). This is an increase of more than 30% for the three-year period.

Using these figures, it is possible to estimate the percent of school revenues available on an equal basis to all public school children in the state under S.B. 90 in 1973-74:

	<u>Amount per Pupil</u>	<u>Percent</u>
Foundation Program revenues	\$ 840	76.4%
State & Federal Categorical Aids and other non-local property tax supplemental revenues	166	15.1
Unequalized local property tax supplemental revenue	93	8.5
	<hr/>	<hr/>
TOTAL general fund revenues--all sources	\$ 1,099	100.0%

These amounts are estimates which depend upon Federal action and upon the estimate of total expenditures per pupil. But, it is safe to predict that not more than 10% of all public school revenues

for current purposes during the school year 1973-74 under S.B. 90 will come from unequalized local property taxation supplementing the foundation program and non-local revenues. If this is true, the "Index of Unequal Expenditures Per Pupil" should be less than 5% for unified school districts during the 1973-74 school year.

Property Tax Rate Equalization Under S.B. 90

Under the new foundation programs of S.B. 90, local contribution tax rates (called computational tax rates) are established as follows: for elementary school pupils, \$2.23 per \$100; for high school pupils, \$1.64 per \$100. If these tax rates, along with the basic aid of \$125 per pupil, do not produce the foundation program amounts, the state provides the needed additional funds. On the other hand, in those districts in which the computational tax rate--along with the basic aid--would produce more than the foundation program amounts, a reduced tax rate is authorized. Thus, the local property tax rates required to finance the foundation programs are not the same in all districts. In some high-wealth districts (serving approximately 12% of the elementary pupils and 20% of the high school pupils), local property tax rates required for the foundation programs are less than the prescribed computational tax rates.

Proposals to equalize these tax rates were made in the form of a statewide property tax and full state funding of the foundation program. Despite the arguments advanced for an equal school property tax rate in all parts of the state to finance the foundation program, the statewide

property tax for public schools was rejected. The most persuasive counter-arguments were based upon municipal overburden. For example, San Francisco has a relatively low property tax rate for schools, but a relatively high property tax rate for other municipal services. Its total tax rate exceeds the state average. If its school tax rate were brought up to the state average property tax rate for schools, its total property tax rate--already above the state average--would be increased even more.

The revenue limitation provisions are relevant to this issue. Instead of authorizing school boards to levy a uniform tax rate without a vote of the people, S.B. 90 authorizes tax rates sufficient to produce authorized amounts per pupil. This is one of the most significant provisions of S.B. 90. From now on, state limitations upon the taxing authority of local boards of education will be based upon authorized revenues per pupil instead of uniform tax rates. This means that school boards in school districts in which the assessed valuation of taxable property per pupil is substantially more than the state average, will not be permitted to raise excessive amounts per pupil from their superior tax bases; instead, they will enjoy lower tax rates.

Thus, S.B. 90 places more emphasis upon equal expenditures per pupil and less upon equal tax rates. Critics of S.B. 90 emphasize its failure to increase school tax rates in "high wealth" school districts which have had low school tax rates in the past.

Revenue Limitations

In order to roll back property tax rates in low-wealth districts and to reduce the variation in expenditures per pupil among California school districts, the Legislature established revenue limitations for school districts. These limitations are expressed in terms of current expenditures per pupil, excluding state and Federal categorical aids. The limitations are upon the amount of revenue which may be derived from the foundation program and from local supplements to the foundation program derived from property tax rates authorized by boards of education.

In this sense, the revenue limitations are limitations upon the taxing powers of boards of education. This method of limiting local school taxation, in place of uniform tax rate limitations, is the most significant change in the California school support program.

In the Serrano case, the California Supreme Court stressed the need for greater equality in the allocation of education resources among school districts. In order to make school expenditures more nearly equal, it was necessary to provide additional revenues to the low-wealth districts. This was done by increasing the foundation program amounts.

In addition, it was necessary to impose limitations upon expenditures per pupil in the high-wealth districts. But, to impose a uniform ceiling upon expenditure rates per pupil in all districts at this time would create chaotic conditions in many school districts.

The Legislature, therefore, chose to establish revenue limitations by starting with existing expenditure rates per pupil in all school districts and restricting the increases allowed for inflation. The basic inflation allowance (an amount per pupil) was multiplied by the ratio of the foundation program

amount per pupil to the actual annual current expenditure per pupil (not to exceed one) to obtain the allowable additional annual expenditure per pupil.

Under this formula, a school district which spent twice the annual amount per pupil allowed in the foundation program would receive only 1/2 of the basic inflation allowance. On the other hand, a school district spending the foundation program amount would be permitted to add the total basic inflation allowance to its expenditure limitation. Moreover, a low-wealth district is permitted to expend the amount included in the new foundation program, provided it does not increase its expenditure rate per pupil by more than 15% in one year.

The whole concept of revenue limitations is new and will undoubtedly be amended by future legislatures. For this reason, it is more important to review the purposes than the procedures. These are:

1. To establish limitations upon the taxing authority of school boards, which reflect operating needs instead of uniform tax rates.
2. To cause expenditures per pupil to become more nearly uniform over a period of time. The upward movement of expenditure rates of low-wealth districts is quite rapid, but the limitations upon the high-spending districts are much more gradual.
3. These limitations do not apply to state and Federal categorical aids and to voter-approved tax increases. Although the Legislature took steps toward greater equalization, it did not remove the authority of the people to vote additional school taxes.

Summary

There are basically four aspects of S.B. 90 which are related to the Serrano problem. They are:

1. The adequacy of the equalized revenues available to schools from the foundation programs and the supplementary categorical state and Federal aids.
2. The equity for taxpayers of the property tax contribution to the foundation program.
3. The duration of the transition period for achieving the required "equalized" public school support.
4. The anticipated unequalizing effects of voter-approved additional local revenues for public schools.

In a sense, one and four above are interrelated. If the foundation program and the supplementary categorical aids are adequate, there will be little need for voter additional local tax funds. Under these conditions, a high degree of equalization of public school revenues per pupil will be achieved. But, if the foundation programs and the categorical aids are inadequate to meet local school budgetary needs, more local taxes will be voted--generating inequalities in public school expenditure rates.

This creates a problem for the courts, since they are not well equipped to determine the adequacy of school revenues. S.B. 90 provides a substantial increase in the level of the foundation programs and introduces needed new categorical aids. Moreover, the new law assures a rollback in school tax rates in

those low-wealth districts which have levied high property taxes in the past. These facts tend to meet the complaints of the plaintiffs in the Serrano case.

On the other hand, S.B. 90 permits unrestricted local taxation if (and only if) such additional local school taxes are approved by a majority vote of the people. If, in the years ahead, the Legislature fails to provide adequate school funds, there is a danger that widespread use of voted local school taxes may recreate the inequalities S.B. 90 seeks to eliminate.

Faced with this problem and the Supreme Court's decision in the Texas case, it is difficult to anticipate how the California courts will rule on S.B. 90. Since S.B. 90 is an excellent example of the foundation program, the basic concepts which have dominated school finance for 50 years are under court review.

Taxable Wealth and Expenditures per Student

The relationship between taxable wealth per pupil and expenditures per pupil in California unified school districts during the 1969-70 school year are shown in Table I. The expected relationship is evident in the tendency for the average expenditure rate per pupil to increase as the taxable wealth per pupil increases.

There are, however, some conspicuous exceptions to the general rule. Except for the one school district in the lowest-wealth category (in which the expenditure rate per pupil is very close to the state average--98%), at least one school district in each of the five low-wealth categories (below the average line) expends more than the state average amount per pupil. Similarly, except for the two highest-wealth categories (which have less than 2% of the students), at least one school district in each of the seven high-wealth categories (above the average line) spends less than the state average amount per

Thus, although there is a tendency for high-wealth districts to spend more per student, the exceptions to this rule are numerous. Under the new school finance law (S.B. 90), it is expected that the number of exceptions will increase and the correlation between taxable wealth and expenditures per pupil will be less pronounced.

TABLE I

SCHOOL RESOURCE EQUALIZATION STUDY

Correlational Analysis of Indexes for Taxable
Wealth and Current Expenses Per Pupil--California
Unified School Districts--1969-70

Index Interval	Taxable Wealth Per Pupil Index-- Distribution		Current Expense Per Pupil Index-- Correlated to Wealth		
	Number of Districts	Percent of ADA	Max.	Aver.	Min.
300 +	13	.58	294	150	103
250-300	10	.77	181	130	122
200-250	19	3.87	170	153	87
150-200	26	3.70	187	118	90
120-150	33	10.56	184	114	78
110-120	9	22.75	114	96	84
100-110 <i>average</i>	20	4.57	116	94	80
90-100	16	5.96	121	104	80
80-90	20	9.91	113	96	82
50-80	57	28.50	108	91	78
25-50	16	8.64	102	88	72
0-25	1	.14	98	98	98

Interpretation note: There are 13 school districts serving less than 1% of the students (0.58%) in which the taxable wealth per pupil exceeds three times the state average wealth per pupil. The average current expense per pupil in these 13 districts is 50% more than the state average. The highest spending district among these 13 spends 195% more than the average district and the lowest spending district among the 13 spends 3% more than the average.

Chart No. I

DISTRIBUTION OF ASSESSED VALUATION PER ELEMENTARY PUPIL IN UNIFIED SCHOOL DISTRICTS - 1970-71

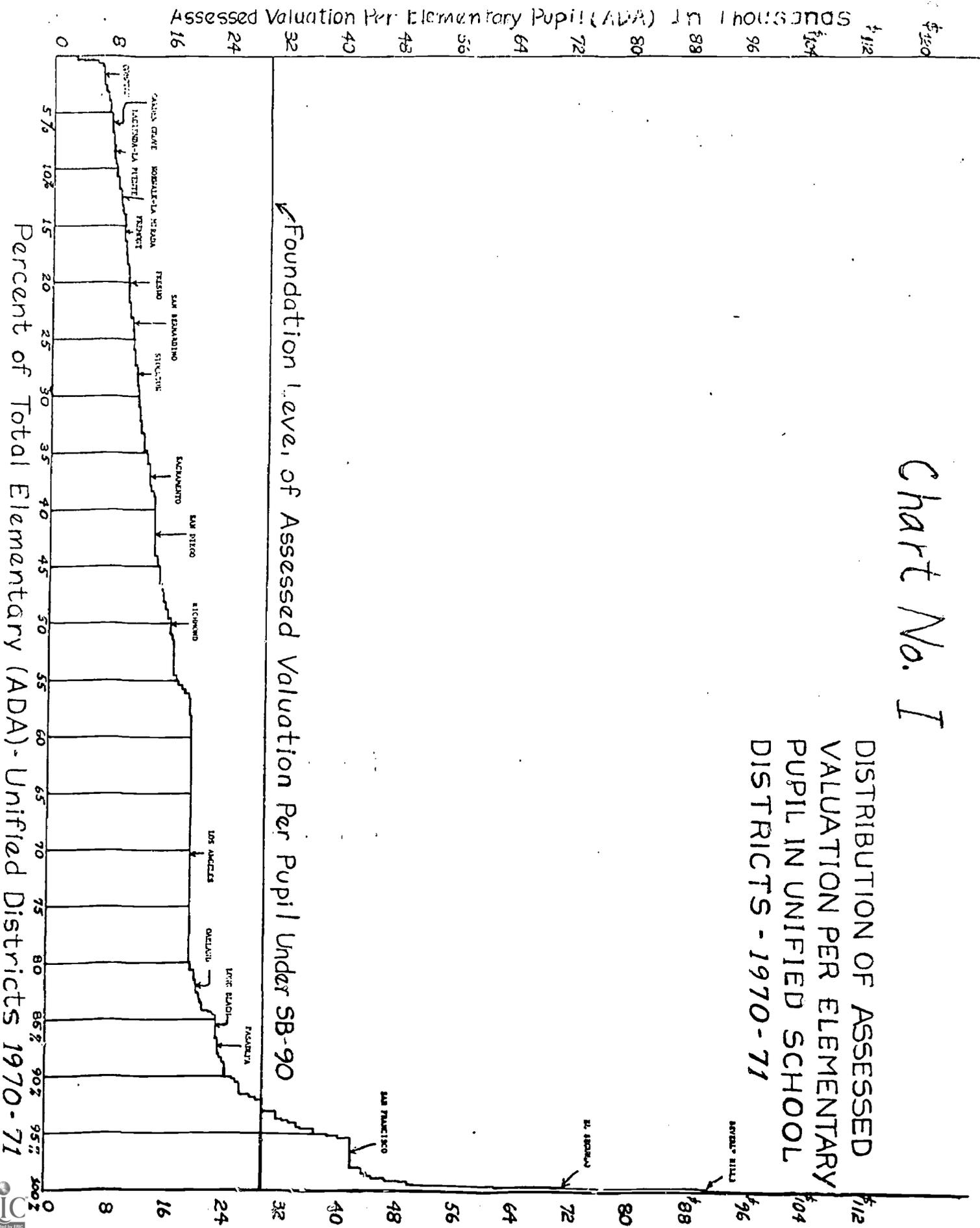


Chart No. II

DISTRIBUTION OF ASSESSED VALUATION PER HIGH-SCHOOL PUPIL IN UNIFIED SCHOOL DISTRICTS - 1970-71

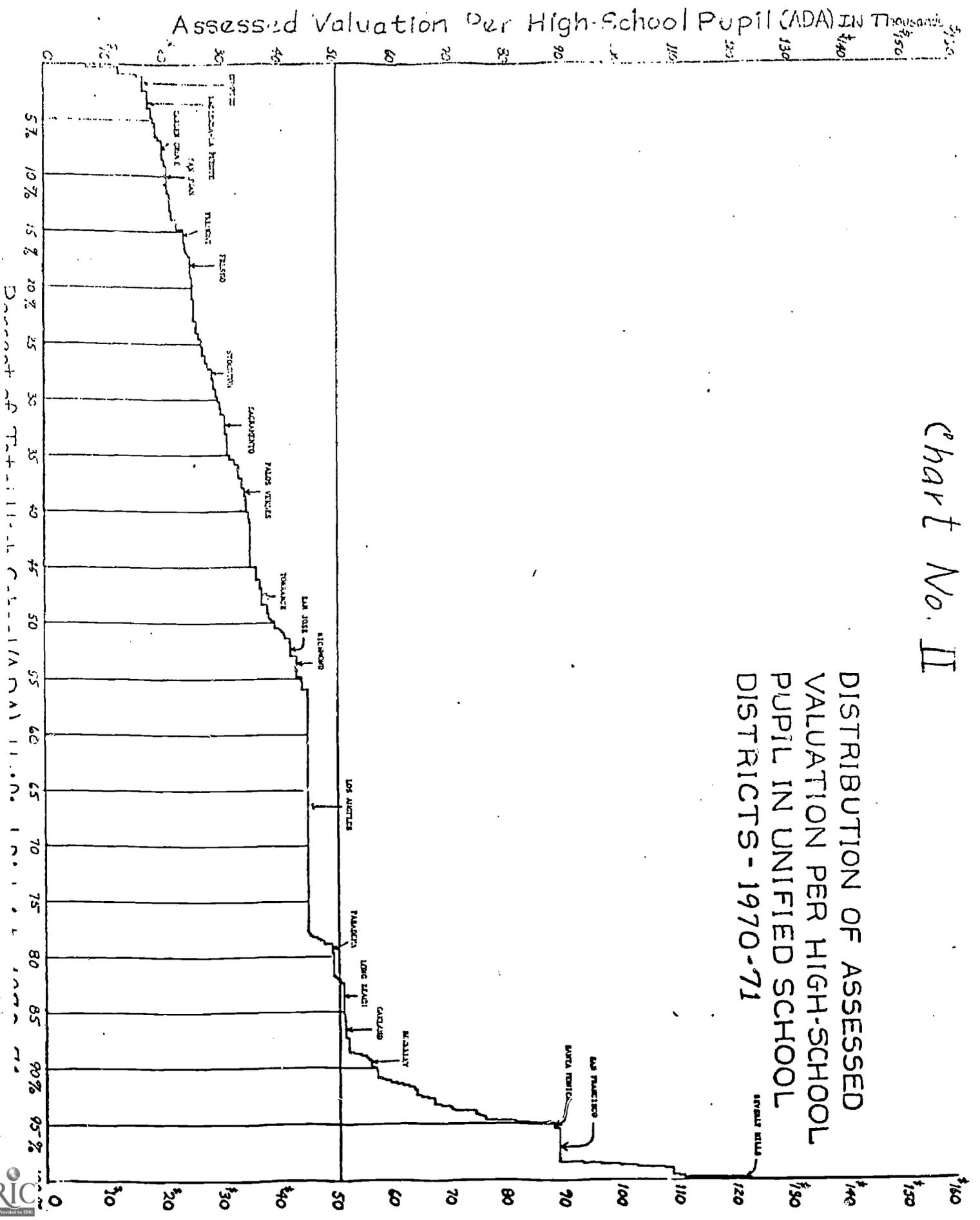
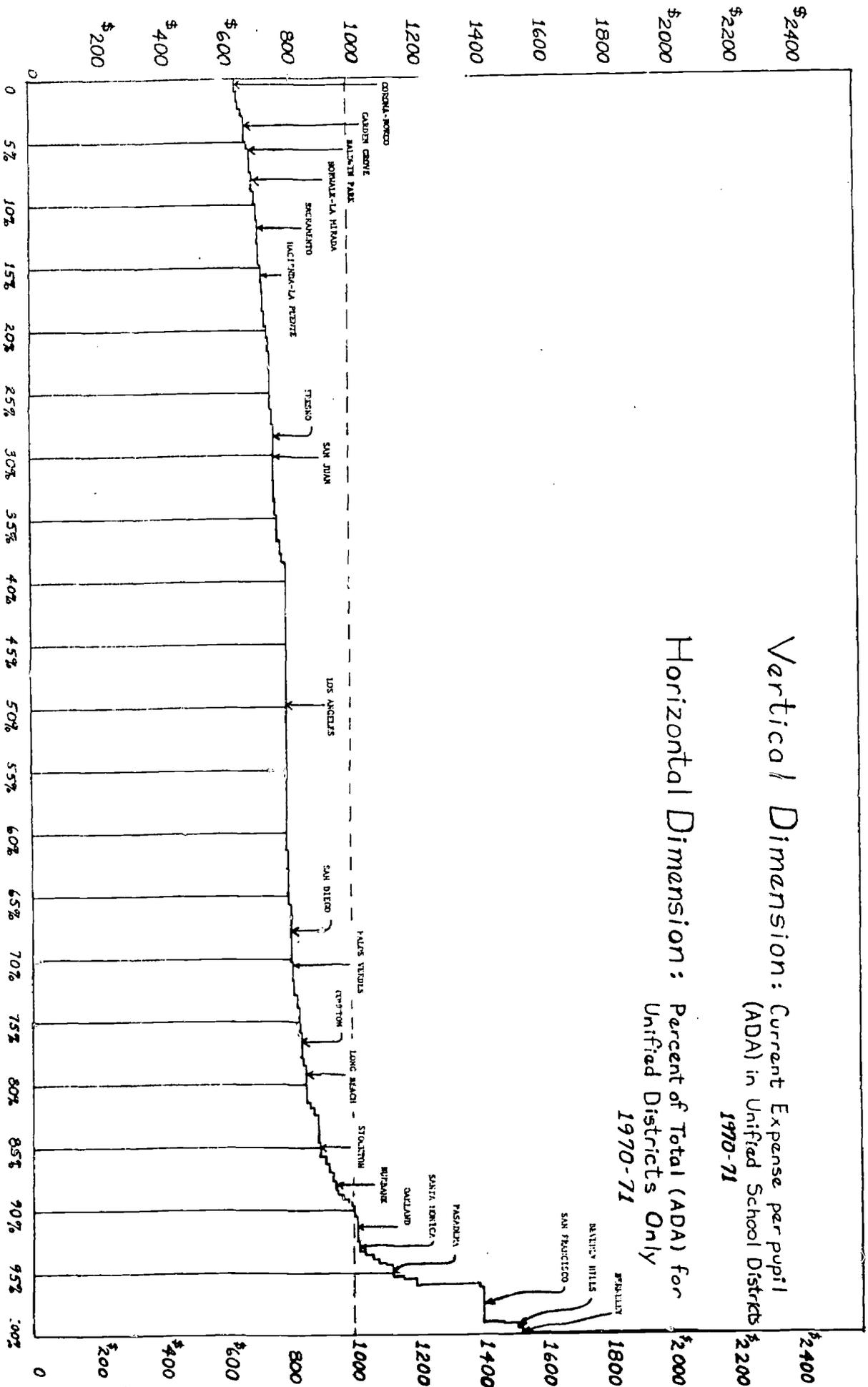


Chart No. III

Vertical Dimension: Current Expense per pupil (ADA) in Unified School Districts 1970-71

Horizontal Dimension: Percent of Total (ADA) for Unified Districts Only 1970-71



Percent of Pupils (ADA) in Unified School Districts 1970-71