

Where Does the Money Come From and Why?

Part I

**Understanding School Finance
and Revenue Limit Funding**

May 9 and May 10, 2008

Session #1 – CBO Mentor Project

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Part I - Outline

❖ Understanding How Revenue Limit Funding Works

- Conceptual Understanding
- Basic Formula and Exceptions

❖ History Lessons

- Serrano Priest, SB 813 Reforms, Prop 13, Gann Limit, Proposition 98

Part I Outline



❖ 2008-09 funding

- Discussion on the elements of 2008-09 funding
- Follow up in June with more information

❖ Resource documents

- 2007-08 Revenue Limit Documents

Part 2 - Outline

❖ Revenue Limit in Excruciating Detail

- COLA, Deficits, Equalization
- PERS, Unemployment
- Charter, Continuation, Community Day School, Necessary Small Schools, Supplemental Instruction

❖ How does the cash and paperwork flow?

- Detail of Cash Flow mechanics and related documents

Credit & Additional Resources

REQUIRED READING FOR ALL CBO'S
School Services of CA
Revenues and Revenue Limit
Published annually.

Our thanks to School Services for an extraordinary resource document. This is the definitive document on School District Revenue Limits.

Expectations/Norms

- ❖ Questions/Dialogue are welcome and encouraged
- ❖ Periodic “Quizzes” to test for comprehension
- ❖ “Hands-on” activities to reinforce learning
- ❖ Identification at key points of CBO leadership role

BASIC CONCEPTS

Learning objectives and goals

Understand How Revenue Limit Funding Works

- Conceptual Understanding of the **basic formula** and exceptions.
- Understand the relationship of **state aid and taxes**.
- Understand the **role of ADA** in revenue limit funding.
- Understand how **historical legislative actions** impact funding today.

BASIC CONCEPTS

Learning objectives and goals

Revenue limits

Understand **COLA, Deficits, Equalization.**

Understand why each district has a **different revenue limit.**

Understand basic relationship of **ADA** with regards to funding.

BASIC CONCEPTS

Learning objectives and goals

Revenue limit % increases relative to negotiations – **begin the discussion** to understand the various ways of viewing the % **increase** in revenue.

Seating Arrangements

**Who considers themselves
“Experts” in Revenue Limit
funding?**

We need at least **ONE person at
each table.**

Table Discussion

Five Minute table discussion

ONE VOLUNTEER FROM EACH TABLE – report out. **ONE MINUTE.** Answer the question:

How do schools get most of their money?

Your Audience:

Table 1 New School Board Member workshop

Table 2 Tax Payer Group

Table 3 Rotary Club

Table 4 PTA

Table 5 Teachers Negotiations group

Experts - Your Assignment

Ensure that **EVERYONE** at your table leaves with an understanding of Revenue Limit funding at the end of the day.

If not, you will be **available** to your table mates during the next month to answer any questions they might have.

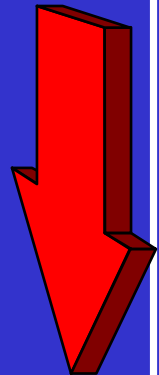
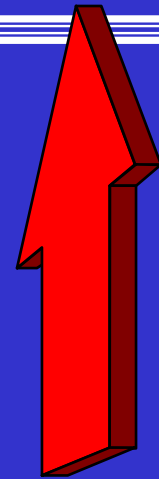
Where Do Schools Get Most of Their Money?

❖ Primarily from Revenue Limit funds

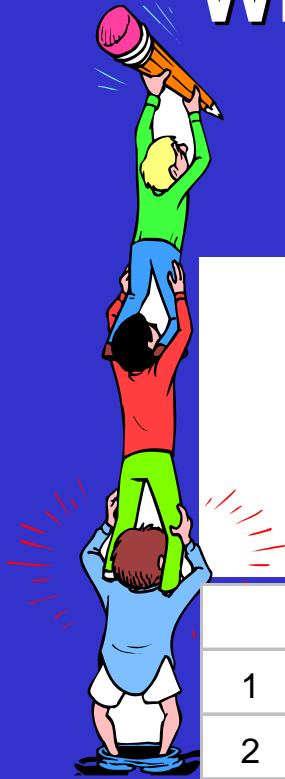
- $ADA \times \text{District Revenue Limit} = \text{Entitlement}$
- ADA = Average Daily Attendance
- Revenue Limit is different for each district

❖ Entitlement – the amount of money you should receive from state aid and local taxes

- Subtract local taxes from entitlement
- Balance is state aid
- Taxes goes up, state aid goes down



Where Do Schools Get Most of Their Money?



SIMPLIFIED EXAMPLE - #1

Understanding ADA x Revenue Limit = Entitlement
 Entitlement less Taxes = State Aid

Basic Calculation			
1	District ADA (Average Daily Attendance)		1,000
2	Revenue Limit	varies by district	\$ 6,000
3	ADA x Revenue Limit =	Line 1 x 2	\$ 6,000,000
Sources of funding			
4	Sources of funding		
5	Property Taxes		\$ 1,000,000
6	State Aid	Line 3 - line 5	\$ 5,000,000
7	Total Funding	line 5 + line 6	\$ 6,000,000
<i>Note; Taxes increase, state aid decreases</i>			

Where Do Schools Get Most of Their Money?



SIMPLIFIED EXAMPLE - #2

Understanding ADA x Revenue Limit = Entitlement
 Deficited Entitlement less Taxes = State Aid

Basic Calculation			
1	District ADA (Average Daily Attendance)		1,000
2	Revenue Limit	varies by district	\$ 6,000
3	ADA x Revenue Limit =	Line 1 x 2	\$ 6,000,000
4	Deficit Funding	99.000%	\$ 5,940,000
Sources of funding			
5	Property Taxes		\$ 1,000,000
6	State Aid	Line 4 - line 5	\$ 4,940,000
7	Total Funding	line 5 + line 6	\$ 5,940,000
<i>Note; Taxes increase, state aid decreases</i>			
	Loss due to deficit (Line 3 - Line 4)		\$ 60,000

Deficit Follow Up

❖ In 2006-07 & 2007-08

- NO REVENUE LIMIT DEFICIT.
- But deficits existed in 2003-04, 2004-05, 2005-06.

❖ But it is important to understand the potential for deficits. More on that later!

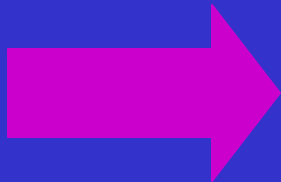
- 2008-09 & beyond..high likelihood of deficits

High Taxes/Low Taxes

- ❖ District A – low property values
- ❖ District B – high property values



	District A	District B
ADA	1,000	1,000
Revenue Limit	\$ 6,000	\$ 6,000
ADA x RL	6,000,000	6,000,000
TAXES	(1,000,000)	(4,000,000)
State Aid	5,000,000	2,000,000
Total State Aid & Taxes	6,000,000	6,000,000



Exceptions to the Rule

❖ BASIC Aid District

BASIC AID INCOME EXAMPLE		
Note: Limited # of High Property Wealth Districts		
1	District ADA	1,000
2	Revenue Limit	6,000
3	ADA x Revenue Limit =	6,000,000
4	Sources:	
5	Property Taxes	10,000,000
6	Funding in EXCESS of entitlement	4,000,000

Please note this is truly an exception. Very few districts in CA have a tax base this high.



Exceptions to the Rule

❖ Necessary Small School

Necessary Small School Example

School with 10 ADA x \$6,000 RL = \$60,000

OR

0-24 ADA	1 teacher =	\$	125,000
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For each "24" ADA = @ \$125,000



Several Restrictions

- Size of District (under 2,500 ADA).
- Distance of School from other Schools.

Summary of Simple Stuff

1. ADA x RL = Entitlement
2. ADA = Greater of Current or Prior Year ADA
3. RL = Revenue Limit. Unique for each district. State wide average for 2007-08 shown below.
4. Entitlement x deficit = Amount of money you are receiving.
5. Deficited Entitlement less Taxes = State Aid

	State Wide Average Revenue Limit	2006-07 State Wide Average Revenue Limit (RL)	2007-08 COLA *	2007-08 State Wide Average Revenue Limit (RL) **
1				
2			4.53%	
3	Elementary	\$ 5,326	\$ 241	\$ 5,567
4	High School	\$ 6,400	\$ 290	\$ 6,690
5	Unified	\$ 5,569	\$ 252	\$ 5,821
6	* Flat Amount to district depending upon Elementary, Unified,			
7	** Revenue limit with COLA, but "effective" RL is RL x deficit			



POP QUIZ

QUIZ

District Property Taxes have increased due to an inflated real estate market. The increase in property taxes means more money for our district.

- True
- False

- Note: Not a basic aid district. e.g., Property taxes are less than entitlement



POP QUIZ

ANSWER

False.

Property taxes increase – state aid decreases

1	District ADA (Average Daily Attendance)		1,000	1,000
2	Revenue Limit	varies by district	\$ 6,000	\$ 6,000
3	ADA x Revenue Limit =	Line 1 x 2	\$ 6,000,000	\$ 6,000,000
Sources of funding				
4	Property Taxes		\$ 3,000,000	\$ 3,600,000
5	State Aid	Line 3 - line 4	\$ 3,000,000	\$ 2,400,000
6	Total Funding	line 4 + line 5	\$ 6,000,000	\$ 6,000,000
<i>Note; Taxes increase, state aid decreases</i>				

- **Note: Not a basic aid district. e.g., Property taxes are less than entitlement**

However....

What if your ADA continues to decline? And your property taxes continue to increase? A Basic Aid funding model might be in your future.

Be aware that some of your property taxes are ERAF funds – and those are NOT allocated to Basic Aid Districts. ERAF – Education Revenue Augmentation Funds (more on that later)

		A	B	Buf - if ADA declines - property tax goes up
1	District ADA (Average Daily Attendance)	1,000	1,000	750
2	Revenue Limit	varies by district	\$ 6,000	\$ 6,000
3	ADA x Revenue Limit =	Line 1 x 2	\$ 6,000,000	\$ 6,000,000
	Sources of funding			
4	Property Taxes		\$ 3,000,000	\$ 3,600,000
5	State Aid	Line 3 - line 4	\$ 3,000,000	\$ 2,400,000
6	Total Funding	line 4 + line 5	\$ 6,000,000	\$ 6,000,000

Note: Taxes increase, state aid decreases

QUIZ

- ❖ A community member has asked your superintendent how much does the district receive in local taxes and state aid for your revenue limit.
- ❖ Your Base Revenue Limit for 2007-08 after COLA is \$6,000. You are growing and your ADA is 1,000. Your local property taxes for 2007-08 are expected to be \$2,000,000.
- ❖ Question: Based on the above information, what dollar amount should you provide to your Superintendent as the amount of state aid for revenue limit your district receives? What are local taxes of the total?

1	ADA		
2	Base Revenue Limit (BRL)		
3	ADA x BRL	Line 1 x 2	
4	Local Property Taxes		
5	State Aid	Line 3 - 4	
6	Taxes as a % of Entitlement		
	Line 4/ Line 3		

OK that was easy..

What if I told you that ADA was declining? And last year we had 1,100 student.

What if I told you that property taxes were \$10 million?

answer

1	ADA			1,000
2	Base Revenue Limit (BRL)			\$ 6,000.00
3	ADA x BRL	Line 1 x 2		\$ 6,000,000
4	Local Property Taxes			2,000,000
5	State Aid	Line 3 - 4		\$ 4,000,000
6	Taxes as a % of Entitlement Line 4/ Line 3			
7	Taxes/Entitlement	2,000,000	\$ 6,000,000	33%

1	ADA			1,100
2	Base Revenue Limit (BRL)			\$ 6,000.00
3	ADA x BRL	Line 1 x 2		\$ 6,600,000
4	Local Property Taxes			2,000,000
5	State Aid	Line 3 - 4		\$ 4,600,000
6	Taxes as a % of Entitlement			
7	Taxes/Entitlement	2,000,000	\$ 6,600,000	30%

1	ADA			1,100
2	Base Revenue Limit (BRL)			\$ 6,000.00
3	ADA x BRL	Line 1 x 2		\$ 6,600,000
4	Local Property Taxes			10,000,000
5	State Aid	Line 3 - 4		
6	Taxes as a % of Entitlement			
7	Taxes/Entitlement	10,000,000	\$ 6,600,000	152%



Revenue Limit History - 1970

Does each district have the same revenue limit per student?

THE SIMPLE ANSWER IS NO.

1971 (final decision 1976) Serrano vs Priest court decision
(Serrano was parent, Priest was CA treasurer at that time)



Prior to Serrano Priest, districts were funded primarily on property taxes. The courts found this was an unequal way to fund schools.

Funding converted to per ADA amount and became the basis for funding in the future (SB 90/1972, AB 65/1977)

Note: SB = Senate Bill, AB = Assembly Bill

Revenue Limit History - 1970

Concept was simple:

**ADA (Average Daily Attendance) x Revenue Limit
= Entitlement**

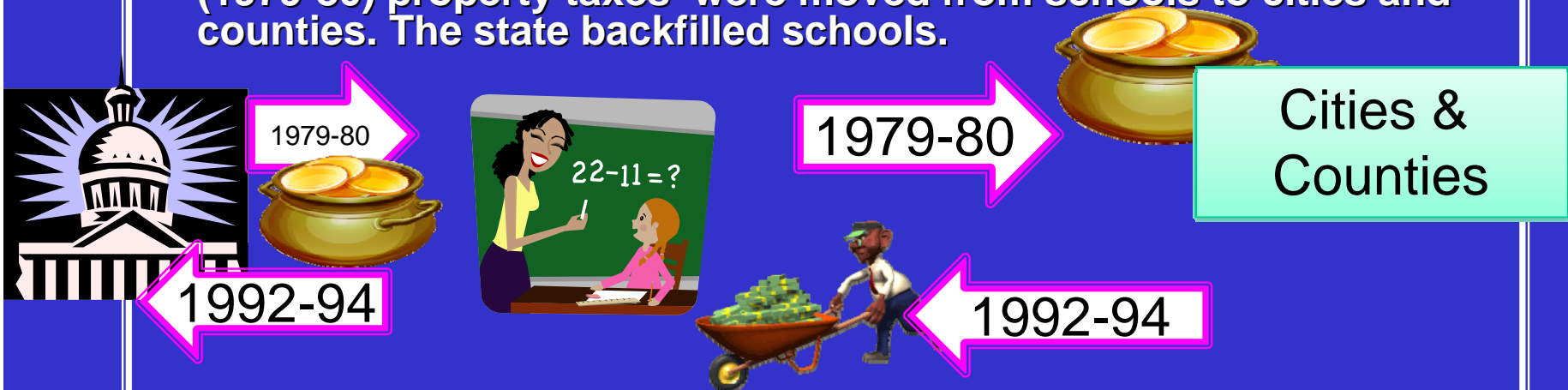
- **Subtract amount received from property taxes**
 - **Balance = State Aid**
- **Prop. 13 slashed property taxes an average of 60%**
 - **1% minimum property tax rate**
 - **2/3 requirement to pass new taxes/bond measure**



So what happens to State Aid when taxes decline?

Who moved my property taxes?

Proposition 13 left local government (cities/counties) reeling from the impact of the loss of revenues and the state provided some bailout relief. In order to provide more of a permanent solution, (1979-80) property taxes were moved from schools to cities and counties. The state backfilled schools.



State of CA Fiscal Crisis. 1992-93/191993-94.

The State moved money from cities/counties back to schools. These funds (\$3.7 billion) were called ERAF, Education Revenue Augmentation Fund. Cities/Counties = HURT. Schools = No new \$.

And the winner is...State of CA = SAVED MONEY.

Who moved my property taxes?

2004-05, State of CA took ¼ cent sales tax from local government. They replaced it with \$1.1 billion taken from schools. State of CA replaced lost school revenue. Why? Improved bond rating.

\$4.1 billion shift in property taxes from schools to local government to keep local government “whole” on the loss of Vehicle License Fees. State of CA replaced lost school revenue.

\$1.3 billion from local government back to schools for 2004-05 and 2005-06. Proposition 1A. Why? \$1.3 billion in exchange for a promise not to raid local government coffers in the future.

1/4 cent sales tax				
in billions	Schools	County Govnt	State of CA	Total
Sales tax		\$ (1.1)	\$ 1.1	\$ -
Property tax	\$ (1.1)	\$ 1.1		\$ -
State Aid backfill	\$ 1.1		\$ (1.1)	\$ -
VLF				
Property tax	\$ (4.1)	\$ 4.1		\$ -
State Aid backfill	\$ 4.1		\$ (4.1)	\$ -
"final" shift				
Property tax	\$ 1.3	\$ (1.3)		\$ -
State Aid backfill	\$ (1.3)		\$ 1.3	\$ -

Negative ERAF

❖ **Something new to worry about. As taxes are shifted, they are netted against ERAF. More taxes are moved than the original ERAFT resulting in a negative ERAF which is netted against secured taxes.**

	Schools	County Govnt
1993-94 ERAF SHIFT	3.7	-3.7
2005-06, net prop tx shifted	-5.1	5.1
2006-07, net prop tx shifted	-6.8	6.8
Result - NEGATIVE ERAF REPORTED - NET AGAINST SECURED TAXES		

Do I care?

Cash flow. There have been some unpleasant surprises for districts as tax estimates were revised over time. Eventually the district is made whole, but cash flow can be an issue.

		County Auditor estimate November 07	County Auditor estimate April 2008	Final taxes - July 2008
1	ADA	1,000	1,000	1,000
2	Revenue Limit	6,000	6,000	6,000
3	ADA x RL	6,000,000	6,000,000	6,000,000
4	Property taxes	4,000,000	4,500,000	3,500,000
5	State Aid	2,000,000	1,500,000	2,500,000
6	Change in state aid		(500,000)	1,000,000
7		Cash flow adjusts	Cash flow adjusts	Cash flow adjusts
8		February 2008	June 2008	February 2009

ERAF DISTRIBUTION – BASIC AID

Example below.

District ADA declines, property tax increases (column b). ERAF allocated only up to Entitlement.

In Column C – ADA declines further – property taxes go up – NO ERAF allocated.

		A	B ADA declines, taxes go up	C ADA declines, taxes go up
1	District ADA (Average Daily Attendance)	1,000	750	500
2	Revenue Limit	varies by district	\$ 6,000	\$ 6,000
3	ADA x Revenue Limit =	Line 1 x 2	\$ 6,000,000	\$ 3,000,000
Sources of funding				
4	Property Taxes	\$ 3,500,000	\$ 4,000,000	\$ 5,000,000
5	ERAF	\$ 500,000	\$ 600,000	\$ 600,000
6	ERAF backed out		\$ (100,000)	\$ (600,000)
7	Subtotal taxes	\$ 4,000,000	\$ 4,500,000	\$ 5,000,000
8	State Aid	Line 3 - (line 4 & 5)	\$ 2,000,000	\$ -
9	Total Funding	Line 7 + 8	\$ 6,000,000	\$ 5,000,000
10		Per ADA	\$ 6,000	\$ 10,000

Note; Taxes increase, state aid decreases

Revenue Limit (RL) History

We are back to the Revenue Limit per ADA discussion.

There were significant variances in Revenue Limits by district in 1970's. The plan was to **bring up those below** and **hold harmless** those above.

Districts below average received more COLA \$ each year to bring them up. Those above average received less \$.

Early 1980's courts again looked at amounts per ADA and deemed "**substantial compliance**" with Serrano Priest decision that districts be funded equally.



More History

We now go to 1980s to understand some more history and how it relates to revenue limit calculations of today

Revenue Limit History - 1980

❖ Early 1980 recession

- Funding crisis & bankrupt districts & start of AB 1200
- AB 1200 - County office approval of district budgets and intervention

❖ 1983-84 Economic Recovery and Reform (SB 813)

- Mentor teachers (now PAR)
- Longer day and year (changed again by Staff Development Program)
- Increased salaries for new teachers (the first Minimum Teacher Salary program)
- Statutory Cost of Living formula (implicit price deflator – more on this later)
- Equalization for below average districts
- Establish revenue limit classifications
- Flat \$ COLA per classification – no more differential COLA
 - COLA now based on % of State Average



Revenue Limit History - 1980 Continued

- ❖ **Longer Day and Year Funding (SB 813)**
 - Other major change was longer day and year
 - 180 day school year
 - Required number of minutes
 - \$ added to Revenue Limit
 - COLA each year
 - Approx \$200+ in revenue limit currently that relates to longer day and year funding
 - *If number of minutes not met - could lose \$*
 - 36,000 minutes in K
 - 50,400 grades 1 - 3
 - 54,000 grades 4-8
 - 64,800 grades 9-12

Revenue Limit “Add-ons”

The REVENUE LIMIT PER ADA is redefined for some specific purposes. Deficited Revenue limit per ADA without Add-Ons.

- Special Education ADA revenue limit calculation

- Equalization calculations

- Failure to meet Minimum Minute/Day standards can result in loss of these funds

- Future Add-ons – typically not rolled in (e.g., new beginning teacher salary amounts)

CBO Leadership Role

Be able to tell the story of the history of school finance – it is critical to understanding our current funding model.

Have a variety of presentations ready for various audiences – school board, community groups, union meetings, PTA, service clubs, taxpayers association, bond oversight committees.

You are the schools ambassador - your communication role to the community at large is critical.

CBO Leadership Role – Instructional Minutes

Review **SYSTEMS** in place to ensure Instructional Minutes requirement is met

- Varies by district as to who is responsible, but ultimately CBO should be intimately involved

- Instructional Minute requirements noted before
 - Audited annually
 - Accurate Bell Schedules are important
 - Track Minimum Days in count of minutes
 - Emergencies – file waiver (J13)

- If audit reveals non compliance; loss of amounts rolled into Revenue Limit



J-13 Waiver Elements

- ❖ Nature of Emergency (describe):
- ❖ Name of School(s):
- ❖ (if request covers all schools, write "all schools")
- ❖ School Code(s):
- ❖ We request that apportionments be maintained and instructional time credited for the above named school(s) without regard to the fact that the school(s) were closed on (dates): because of the described emergency. Approval of this request authorizes the local educational agency to disregard these days in the computation of average daily attendance (ADA) (per Section 41422) and obtain credit for instructional time for the days and the instructional minutes that would have been regularly offered on those days pursuant to *Education Code* Section 46200, et seq.
- ❖ If the school closure resulted from a power outage or impassable roads caused by inclement weather, state the number of school closure days for the same conditions in each of the last five years:

Revenue Limit More Details

❖ COLA

❖ Deficit

❖ Equalization

❖ ADA

Budget Provides COLA - What Does That Mean?

Revenue Limits (RL) receive COLA

- COLA = Cost of Living Adjustment
- Implicit price deflator for government goods and services determined in May of each year
- Estimated in January
- Published by the Dept. of Commerce
- Revenue Limit (RL) COLA guaranteed is added to RL
- Based on percentage of statewide average (not district unique revenue limit)
- **BUT... this does not mean funds are appropriated (deficit)**

Fiscal Year	Final COLA (May)
1997-98	2.65%
1998-99	3.95%
1999-00	1.41%
2000-01	3.17%
2001-02	3.87%
2002-03	2.00%
2003-04	1.86%
2004-05	2.41%
2005-06	4.23%
2006-07	5.92%
2007-08	4.53%
2008-09 Jan est	4.94%
2008-09 May	5.66%



More Information than you ever wanted

...Published by the U.S. Department of Commerce, Bureau of Economic Analysis. It is presented in the National Income and Product Accounts Table 3.9.4—Price Indexes for Government Consumption of Expenditures and Gross Investment.

<http://www.bea.gov/bea/dn/nipaweb/TableView.asp#Mid>

K-12 statutory COLA for use in 2008-09

sum of the values from 2007/Q2 through 2008/Q1
compared with the sum for the prior four quarters.

Finalized in April 2008, becoming the statutory COLA for
K-12 programs in 2008-09.

State Wide Average RL & COLA

	State Wide Average Revenue Limit	2006-07 State Wide Average Revenue Limit (RL)	2007-08 COLA *	2007-08 State Wide Average Revenue Limit (RL) **
1				
2			4.53%	
3	Elementary	\$ 5,326	\$ 241	\$ 5,567
4	High School	\$ 6,400	\$ 290	\$ 6,690
5	Unified	\$ 5,569	\$ 252	\$ 5,821
6	* Flat Amount to district depending upon Elementary, Unified, High School			

	2007-08 State Wide Average Revenue Limit (RL)	2008-09 Est COLA	2008-09 Average	2008-09 Est COLA
		4.94%		5.66%
Elementary	\$ 5,567	\$ 275	\$ 5,842	\$ 315
High School	\$ 6,690	\$ 330	\$ 7,020	\$ 378
Unified	\$ 5,821	\$ 288	\$ 6,109	\$ 330

*** Flat Amount to district depending upon Elementary, Unified, High School**

**** Revenue limit with COLA, but "effective" funding is revenue limit x deficit**

How do I keep track of all this data?

The best resource is

School Services of California.

They provide timely information on a daily basis with their fiscal report updates as well as providing budget conferences (January Preliminary budget, May Revise, and Final Budget Conference in July)

Their “Dartboard” is an invaluable tool for budget planning.

QUIZ – Calculate 2008-09 COLA

Hypothetical – what if COLA was 6%

COLA Calculation	2007-08 Est. State Wide Average	What if COLA for 2008-09 is?	ANSWER
		6.00%	
Elementary	\$ 5,567		<input type="text"/>
High School	\$ 6,690		<input type="text"/>
Unified	\$ 5,821		<input type="text"/>

2008-09 COLA Debate

High likelihood

**COLA will NOT be funded in 2008-09
(added to RL – then a deficit applied)**

BUT what is COLA % for your district?

DEPENDS....

Example – District A, B, C



Est. Statewide Average for Elem District =	5,567		
Cost of Living Index (estimate)	5.66%		
	\$ amount of increase		\$ 315.00
	District A	District B	District C
ADA	1,000	1,000	1,000
PY Revenue Limit	\$ 5,500	\$ 5,567	\$ 6,000
COLA	\$ 315	\$ 315	\$ 315
New Rev Limit	\$ 5,815	\$ 5,882	\$ 6,315
COLA as % RL	5.73%	5.67%	5.25%

If state COLA = 5.66%

Same \$315 to each.
Therefore, COLA% by District varies

QUIZ

- ❖ The *implicit price deflator for government goods and services* is published in May of 2008 for 2008-09.
- ❖ Elementary statewide average \$5,567.
- ❖ You are an elementary district with a revenue limit of **\$6,000**.
- ❖ What if the COLA had been 6%?
- ❖ The approximate DOLLAR amount of COLA you are entitled to in 2008-09 if COLA increases to 6%?

A) \$360

B) \$334

C) \$315

ANSWER IF COLA WERE 6%

You are an elementary district with a revenue limit of \$6,000.

\$6,000 x 6% = \$360 WRONG ANSWER

- BUT REMEMBER STATEWIDE AVERAGE IS ABOUT \$5,567**

CORRECT ANSWER IF COLA WERE 6%

Statewide average	5,567	5,567
If COLA was =	5.66%	6.00%
\$ amount of COLA for Elem.	\$ 315.00	\$ 334.00

quiz

Your revenue limit increase is 5.66% and suspend reality for a moment and assume it was fully funded. You can expect to give COLA increases to employees of 5.66%.

- True
- False



ANSWER

What you **might** be saying at the table.....

We did receive 5.66% COLA (hypothetical) on our revenue limit.

But not all categoricals received the COLA . We had a reduction in federal income sources, we lost forest reserve funds, we are declining in enrollment. Our effective COLA increase from all sources was only 4.0%

- ❖ **And we had step and column increase of 2%...**
- ❖ **And we picked up increased benefit costs...**
- ❖ **And we declined in enrollment by over 100 students**
- ❖ **And we have to replace three busses with some of the new dollars**
- ❖ **And we want to restore our music program that we cut two years ago**
- ❖ **And the county is talking about a possible qualified first interim because we can't meet our financial obligations in 2009-10 because of projected declining enrollment**
- ❖ **And remember, as CBO of this district I have to sign off on any settlements certifying that we can afford it (and that isn't looking too probable)**

DEFICIT DETAIL

Deficit Discussion – History Lesson...

Back to 2003-04

- ❖ 2003-04 COLA (cost of living adjustment) 1.86%
 - percentage times statewide average (NOT district RL)
 - e.g., all elementary districts receive \$85 COLA

Added to Revenue Limit, BUT NOT FUNDED

- ❖ Reduction to Revenue Limit

1.2% reduction to funding in 2003-04

- ❖ Result – **3% funding reduction**

- But funding loss from prior year was 1.2%
- Balance of 1.8% resulted from COLA added and not funded
- Note: Actual percentage varies for high/low revenue limit districts



What is the Status of the Deficit Factor in 2006-07?

- ❖ 2003-04 3% FACTOR OR 97% FUNDED
- ❖ 2004-05 @ 2% FACTOR OR 98% FUNDED
- ❖ 2005-06 @ 1% FACTOR OR 99% FUNDED
- ❖ 2006-07 FULLY RESTORED!

Average deficit reduction per ADA (Elementary District)	Elem. Revenue Limit*	Deficit Factor	Amount of Deficit	Change
2003-04	4,648	3.002%	-141	
2004-05	4,776	2.143%	-102	\$ 39
2005-06	4,985	0.892%	-44	\$ 58
2006-07	5,334			\$ 44

* Statewide Average

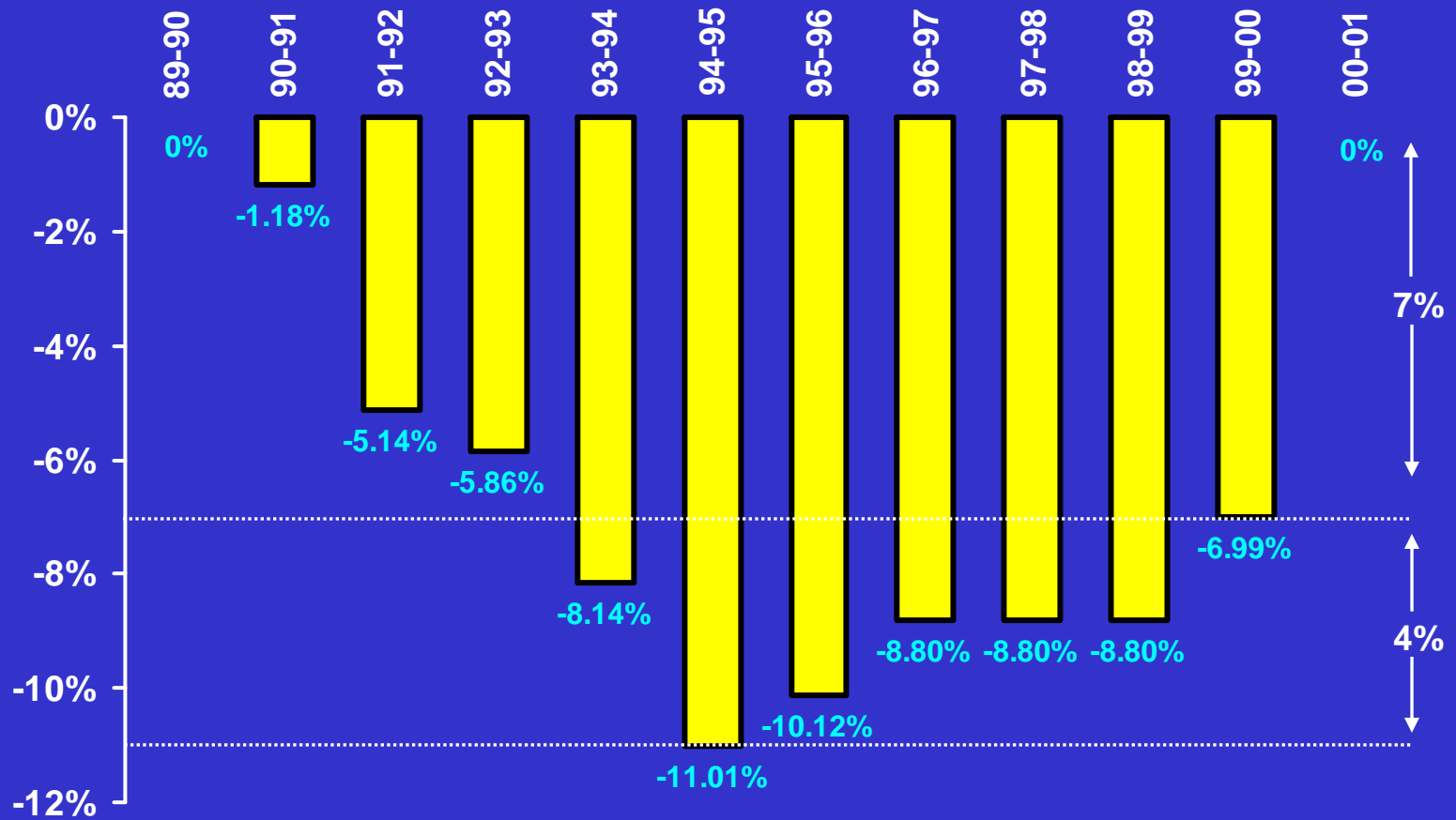
More information than you ever wanted!

1		2003-04		2004-05		2005-06		2006-07	
2		Deficit factor	Deficit*	Deficit factor	Deficit	Deficit factor	Deficit	Deficit factor	Deficit
3	Revenue Limit REDUCTION (03-04 1.2% *)	98.802%	1.198%	99.677%	0.323%	100.000%		100.000%	
4	Unfunded COLA (03-04 1.86%*)	98.174%	1.826%	98.174%	1.826%	99.108%	0.892%	100.000%	
5	% funded (line 3x 4)	96.998%		97.857%		99.108%		100.000%	
6	or % unfunded (100% - line 5)	3.002%		2.143%		0.8920%			
7	% restored			0.859%		1.251%		0.892%	
	* 1.2% reduction = 1.198% deficit, 1.86% COLA = 1.826 deficit								

Why should I care?

- ❖ **Deficits make explaining revenue limits very difficult. However, they are an important way of tracking “unfunded” legislative obligations.**
- ❖ **Will they occur in our future? If past history is an indicator, YES ! And probably starting again in 2008-09.**
- ❖ **See next slide (courtesy of School Services) for the deficit history of the 90’s.**
- ❖ **Statutory Cost of living increases NOT funded because the state had no money. When funding received – NOT RETROACTIVE.**

Deficits in the 90's



Added “Inequality” with Unfunded COLA

- ❖ As noted COLA is a % of statewide average, therefore effective COLA differs
- ❖ When COLA is unfunded, the disparity widens
- ❖ COLA added in at statewide average
- ❖ Deducted as % of Revenue Limit (not flat amount)

1	Elementary District	5,567	6,000
2	COLA of 5.66%	315	315
3	Total	5,882	6,315
4	COLA not funded	94.645%	94.645%
5	RL after deficit	5,567	5,977
6	DEDUCT	315	338
7	GREATER IMPACT		23
8	Deficit factor	5.355%	5.355%

Remember – Effective COLA is Another Story

❖ Revenue Limit is about 70% to 80% of Funding (sample below)

1		Unrestricted	Restricted	Total
2	Revenue Limit	15,200,000	100,000	15,300,000
3	Federal Revenue	160,000	600,000	760,000
4	Other State Revenue	2,000,000	1,100,000	3,100,000
5	Local Revenue	700,000	1,000,000	1,700,000
6	Total	18,060,000	2,800,000	20,860,000
7	Revenue Limit as % of Total			73%

Effective COLA

- ❖ Effective COLA
- ❖ 2006-07 example
- ❖ Deficit restored to RL + EQ + COLA

		Funding before COLA/Deficit	COLA, Deficit, Equalization	Total Funding	% Change
1					
2	Revenue Limit	14,166,700	1,133,300	15,300,000	8.00%
3	State Revenue (minus lottery)	2,500,000	100,000	2,600,000	4.00%
4	Special Ed (federal/local)	966,200	33,800	1,000,000	3.50%
5	Other	1,960,000	-	1,960,000	0.00%
6	Total	19,592,900	1,267,100	20,860,000	6.47%

Negotiations Debate

UNION (2006-07)

We know the district received over an 8% increase in the revenue limit alone. PLUS lots of other new dollars.

And the governor indicates that the economy of CA is strong and the budget is balanced.

We have gone several years without raises and our salaries are well below other districts.

Negotiations Debate

Management (2006-07)

- Yes, we received a revenue limit increase of 8%.
- But the effective COLA is only 6.5%.
- Less step & column (2%)
- Less health and welfare increased costs because we don't have a benefit cap
- Less fuel costs
- Less other increased costs
- Balance = ??

And then there are Declining Enrollment districts! Who face significant reductions in income and are seeing potentially no increase in funding.

2008-09 Negotiations Debate

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Check for Understanding

❖ **ADA x Revenue Limit = Entitlement**

- Applies in most circumstances, some exceptions

❖ **ADA** Current or Prior Year ADA (more discussion on ADA later)

❖ Revenue Limit gets **COLA** each year

- May not be funded, but COLA gets added to revenue limit
- COLA based on statewide average and each district revenue limit is unique

❖ Entitlement x **DEFICIT** = Money you are really getting

❖ **Taxes** are **deducted** from the deficated entitlement to arrive at state aid

CBO Leadership Role

- ❖ Understand basic relationship of **revenue limits** and **taxes**
- ❖ Understand and be able to explain **COLA** and **Deficits**
- ❖ **Know your revenue limit** with regards to statewide average. Know if you are above or below and why.
- ❖ **Develop communication** tools for negotiations so that funding increases are understood

CBO Leadership Role

- ❖ Review your internal **systems** with regards to revenue limits.
- ❖ What staff member updates the calculation and do they understand all the elements?
- ❖ Are there strong communication links between staff doing ADA projections, enrollment monitoring, **ADA reporting**, and revenue limit calculations?
- ❖ Is the revenue limit calculation **reviewed and updated** for budget, first interim, second interim, end of year closing?
- ❖ Is it reviewed and compared to CDE certifications in February and June? For current year and prior years? Do **estimated Accounts Receivables/Payables** for revenue limit closely resemble the final CDE adjustment?
- ❖ Is a **summary document** provided that tracks the variances from one ~~change to the next?~~

Revenue Limit Quiz

complete the worksheet on the next page

❖ ADA

- Prior Year ADA 1,000
- Current Year ADA 900

❖ PY Revenue Limit for this specific district – \$6,000

❖ 2008-09 Funding Assumptions

- Elementary District
- 2007-08 State Wide Average RL is \$5,567
- Use 5.66% COLA

❖ Property Taxes = \$3,000,000

Revenue Limit Quiz

1				
2			<i>2007-08</i>	2008-09
3	Prior Year ADA	> of current or PY ADA	<i>1,000</i>	<i>1,000</i>
4	Current Year ADA		<i>1,000</i>	<i>900</i>
5	Greater of Current or Prior Year ADA		<i>1,000</i>	
6				
7	PY Revenue Limit			\$ 6,000
8	COLA	Elementary		\$ 315
9	CY RL	Line 7+8	\$ 6,000	
10	Entitlement (ADA x RL)	Line 5 x 9	\$ 6,000,000	
11	deficit			<i>0.05355321</i>
12	deficit factor		<i>1</i>	<i>0.946446787</i>
13	amount unfunded due to deficit	line 10 x 11	\$ -	
14	Entitlement less deficit	Line 10 less Line 13	\$ 6,000,000	
15	Sources of funding			
16	Property Taxes			\$ 3,000,000
17	State Aid	Line 14 - line 16		
18	Total Funding	Line 16 + Line 17		
19	PY funding	Line 14		\$ 6,000,000
20	Change from Prior Year	Line 18 less Line 19		
21	Effective % change	Line 20/line 19		

Answer

- ❖ line 20 – a small decrease from prior year?
- ❖ If not, go back and check your work

Revenue Limit Quiz

1					
2			2007-08	2008-09	2008-09
3	Prior Year ADA	> of current or PY ADA	1,000	1,000	1,000
4	Current Year ADA		1,000	900	900
5	Greater of Current or Prior Year ADA		1,000		1,000
6					
7	PY Revenue Limit			\$ 6,000	\$ 6,000
8	COLA	Elementary		\$ 315	\$ 315
9	CY RL	Line 7+8	\$ 6,000		\$ 6,315
10	Entitlement (ADA x RL)	Line 5 x 9	\$ 6,000,000		\$ 6,315,000
11	deficit			0.05355321	0.053553213
12	deficit factor		1	0.946446787	0.946446787
13	amount unfunded due to deficit	line 10 x 11	\$ -		\$ 338,189
14	Entitlement less deficit	Line 10 less Line 13	\$ 6,000,000		\$ 5,976,811
15	Sources of funding				
16	Property Taxes			\$ 3,000,000	\$ 3,000,000
17	State Aid	Line 14 - line 16			\$ 2,976,811
18	Total Funding	Line 16 + Line 17			\$ 5,976,811
19	PY funding	Line 14		\$ 6,000,000	\$ 6,000,000
20	Change from Prior Year	Line 18 less Line 19			\$ (23,189)
21	Effective % change	Line 20/line 19			-0.3900%

If state wide average....

Revenue Limit Quiz

		2007-08	2008-09	2008-09
1				
2				
3	Prior Year ADA	> of current or PY ADA	1,000	1,000
4	Current Year ADA		1,000	900
5	Greater of Current or Prior Year ADA		1,000	1,000
6				
7	PY Revenue Limit		\$ 5,567	\$ 5,567
8	COLA	Elementary	\$ 315	\$ 315
9	CY RL	Line 7+8	\$ 5,567	\$ 5,882
10	Entitlement (ADA x RL)	Line 5 x 9	\$ 5,567,000	\$ 5,882,000
11	deficit		0.053553213	0.053553213
12	deficit factor		1	0.946446787
13	amount unfunded due to deficit	line 10 x 11	\$ -	\$ 315,000
14	Entitlement less deficit	Line 10 less Line 13	\$ 5,567,000	\$ 5,567,000
15	Sources of funding			
16	Property Taxes		\$ 3,000,000	\$ 3,000,000
17	State Aid	Line 14 - line 16		\$ 2,567,000
18	Total Funding	Line 16 + Line 17		\$ 5,567,000
19	PY funding	Line 14	\$ 5,567,000	\$ 5,567,000
20	Change from Prior Year	Line 18 less Line 19		\$ -
21	Effective % change	Line 20/line 19		

BUT wait...There's more. Governor proposed 2.4% reduction

Revenue Limit Quiz

		2007-08	2008-09	2008-09
1				
2				
3	Prior Year ADA	> of current or PY ADA	1,000	1,000
4	Current Year ADA		900	900
5	Greater of Current or Prior Year ADA		1,000	1,000
6				
7	PY Revenue Limit		\$ 5,567	\$ 5,567
8	COLA	Elementary	\$ 315	\$ 315
9	CY RL	Line 7+8	\$ 5,567	\$ 5,882
10	Entitlement (ADA x RL)	Line 5 x 9	\$ 5,567,000	\$ 5,882,000
11	deficit		0.0763	0.0763
12	deficit factor	1	0.9237	0.9237
13	amount unfunded due to deficit	line 10 x 11	\$ -	\$ 448,797
14	Entitlement less deficit	Line 10 less Line 13	\$ 5,567,000	\$ 5,433,203
15	Sources of funding			
16	Property Taxes		\$ 3,000,000	\$ 3,000,000
17	State Aid	Line 14 - line 16		\$ 2,433,203
18	Total Funding	Line 16 + Line 17		\$ 5,433,203
19	PY funding	Line 14	\$ 5,567,000	\$ 5,567,000
20	Change from Prior Year	Line 18 less Line 19		\$ (133,797)
21	Effective % change	Line 20/line 19		-2.40%

Equalization

EQUALIZATION

OR

**WHY IS MY REVENUE LIMIT DIFFERENT
FROM YOURS?**

Why After “Equalization” Are There So Many Differences?

- ❖ Districts received significant equalization dollars in prior years to bring them to statewide average
 - 1984-85, 1995-96, 1996-97
- ❖ In 1998-99 Revenue Limits were adjusted to reflect actual ADA
- ❖ Adjustment based on 1996-97 data absence data
- ❖ Example
 - 1,000 ADA
 - 50 ADA from excused absences
 - 950 ADA from actual attendance
 - $1,000 / 950 = 1.05$
 - Revenue limit x 1.05 (or 5% INCREASE)

Sample of New ADA Change

- ❖ Before (ADA based on actual attendance and excused absences)

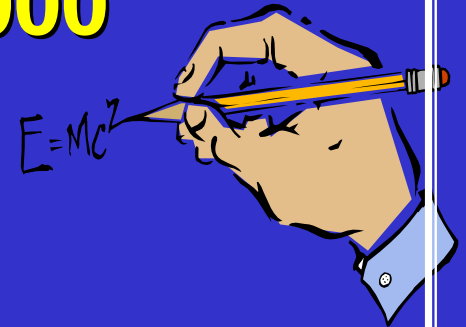
$$1,000 \text{ ADA} \times \$3,700 = \$3,700,000$$

- ❖ Recalculate revenue limit

- 50 ADA from excused absences (5%)
- Actual ADA = 950
- $\$3,700,000 / 950 = \$3,894.74$

- ❖ After (ADA based on actual attendance)

$$950 \text{ ADA} \times \$3,894.74 = \$3,700,003$$



Sample Data

- ❖ Sample shown – using data from districts in El Dorado County
- ❖ Base Year ADA ratio
- ❖ Note : ADA ratio ranged from **3% to 7%**

a	b	c	d	e	f	g	h
			1996-97 P-2 ADA - including absence	1996-97 Excused	Other	d-e-f Calculated Value	(e+f)/d Excused as % of total
09	El Dorado	61978	RESCUE UNION ELEMENT	2,887.32	99.11	2,788.21	3.43%
09	El Dorado	61887	GOLD TRAIL UNION ELE	687.10	27.88	659.22	4.06%
09	El Dorado	61853	EL DORADO UNION HIGH	5,712.15	242.99	5,469.16	4.25%
09	El Dorado	73783	BLACK OAK MINE UNIFI	2,089.78	92.25	1,997.53	4.41%
09	El Dorado	61838	BUCKEYE UNION ELEMEN	3,547.79	163.30	3,384.49	4.60%
09	El Dorado	61929	MOTHER LODE UNION EL	1,731.16	82.26	1,648.90	4.75%
09	El Dorado	61846	CAMINO UNION ELEMENT	564.79	27.76	537.03	4.92%
09	El Dorado	61879	GOLD OAK UNION ELEME	945.49	46.49	899.00	4.92%
09	El Dorado	61903	LAKE TAHOE UNIFIED	5,696.56	297.82	5,398.74	5.23%
09	El Dorado	61911	LATROBE ELEMENTARY	160.80	8.75	152.05	5.44%
09	El Dorado	61952	PLACERVILLE UNION EL	1,419.73	78.37	1,341.36	5.52%
09	El Dorado	61945	PIONEER UNION ELEMEN	662.42	36.97	625.45	5.58%
09	El Dorado	61960	POLLOCK PINES ELEMEN	1,114.87	66.76	1,048.11	5.99%
09	El Dorado	61986	SILVER FORK ELEMENTA	25.63	1.47	23.96	6.52%
09	El Dorado	61895	INDIAN DIGGINGS ELEM	34.51	2.44	32.07	7.07%

Sample Data from El Dorado County

Sample shown – using data from districts in El Dorado County . Note : ADA ratio ranged from 3% to 7%

RESCUE UNION	3.43%
GOLD TRAIL UNION	4.06%
EL DORADO UNION HIGH	4.25%
BLACK OAK MINE UNIFIED	4.41%
BUCKEYE UNION	4.60%
MOTHER LODE UNION	4.75%
CAMINO UNION	4.92%
GOLD OAK UNION	4.92%
LAKE TAHOE UNIFIED	5.23%
LATROBE ELEMENTARY	5.44%
PLACERVILLE UNION	5.52%
PIONEER UNION	5.58%
POLLOCK PINES	5.99%
SILVER FORK	6.52%
INDIAN DIGGINGS	7.07%

❖ 2004-05 Estimated Equalization

2004-05 Estimated Equalization	04-05 P-1 Certification
El Dorad High Sch Dist	28.41
Rescue Elem	25.24
Gold Trail Elem	20.80
Buckeye Elem	17.19
Mother Lode Elem	15.40
Camino Elem	14.36
Gold Oak Elem.	14.15
Lake Tahoe Unified	15.15
Pioneer Elem	9.64
Placerville Elem	9.64
Pollock Pines Elem	5.96
Black Oak Mine Unif	7.07

ADA Ratio

❖ District with 3% adjustment

- **97% actual attendance** in base year
 - Great attendance
 - Lousy increase to **Revenue Limit (3%)**
 - Can they improve attendance beyond 97%?
 - Can they maintain 97% actual attendance?

❖ District with 7% adjustment

- **93% actual attendance** in base year
 - Lousy attendance
 - Great increase to **Revenue Limit (7%)**
 - Can they improve attendance beyond 93%?

❖ **Statewide data for 1996-97 shows that 97% of the ADA in the state was in the -0- to 6% range**

**SB 727 - Actual Attendance
1996-97 Statistics**

1996-97 ADA (actual plus excused)	5,398,471.60
Excused absences deduct	241,274.92
Balance = actual Attendance	5,157,196.68
Excused as % of total ADA - Statewide average	4.47%
# of districts in database (some districts not included)	998.00

Summary Statistics of 1996-97 Actual ADA data	Actual ADA	ADA %	Count	Count %
ADA for district less than = 4.47% (statewide average)	2,726,932.18	52.87%	545	54.61%
ADA for district > 4.47%, less than 6%	2,283,353.19	44.28%	379	37.98%
ADA for district > 6%	146,911.31	2.85%	74	7.41%
Total	5,157,196.68	100.00%	998	100.00%

Equalization DebateContinues.



The Budget “Deal Maker” in 2001-02 was a provision for equalization of revenue limits. New formula – **based on 90th percentile calculation**

- That is, the district for which no more than 10% of statewide ADA has higher funding

2001-02 budget provided one time funding of **9.587% of funding needed to reach target (approximately \$40 m. of over \$400 million cost)**. Continuation of the “promise” was major issue in 2002-03 and 2003-04 budget.... Only no funding available

2004-05 Budget **(\$110 m) 25%** of funding needed to reach target

2005-06 – **no further equalization** (but continues 2004-05 funding)

2006-07 **EQUALIZATION (\$350 m.) 73% of funding needed to reach new target.**

2007-08 No new funding. 2008-09 Not a chance in

Estimated 2006-07 Equalization Benchmarks (February 2007 CDE)		
Elementary Districts—Under 101 ADA		5,877.68
Elementary Districts—Over 100 ADA		4,823.34
High School Districts—Under 301 ADA		6,337.77
High School Districts—Over 300 ADA		5,761.29
Unified Districts—Under 1,501 ADA		5,437.67
Unified Districts—Over 1,500 ADA		5,020.65

1	District Revenue Limit (adjusted for "add-ons")		\$ 4,780.00
2	Base revenue limit of the district in which P-2 ADA is at the 90th percentile		\$ 4,823.34
3	Entitlement	Line 2- 1	\$ 43.34
4	Funding % (estimate February 2007)	per CDE	0.73144
5	Estimated amount of revenue limit equalization	Line 3 x 4	\$ 31.70

CBO Leadership Role

Understand how your district is affected by equalization proposals.

Know your actual **attendance ratio** and how it relates to your current revenue limit

Be able to **communicate** in public forums on this issue. The most common question – why does a neighboring district receive more money than we do?

Discussion

Four Neighboring Elementary Districts

Same Size - 1,000 students

Why do you think the Revenue Limit is different?

		District	District	District	District
		A	B	C	D
1	# students	1,000	1,000	1,000	1,000
2	Revenue Limit	\$ 5,467	\$ 5,667	\$ 6,167	BASIC AID
3					\$ 10,000
4	State wide Average	5,567	5,567	5,567	
5	(below)/above state wide average	(100)	100	600	
6	variance from average	-1.80%	1.80%	10.78%	
7	Entitlement (Col D/taxes only)	5,467,000	5,667,000	6,167,000	10,000,000

quiz

My revenue limit is the **lowest** in my county and below state wide average. This is **probably** because:

- My property tax base in 1970 was low
- My actual attendance in 1996-97 was high (absences low)
- My actual attendance in 1996-97 was low (absence rate high)

The answer is:

ANSWER

- My actual attendance in 1996-97 was high (absences low)
 - E.g., 3% absence rate in base year, revenue limit increased only 3%

Revenue Limit Exercises

Supplement provided

2007-08 P-1 Revenue limit detail for each district represented in the class

2007-08 P-1 REVENUE LIMIT

UNIIFED DISTRICTS

		Beverly Hills	Chico	Clovis	Elk Grove	Eureka	Hemet	las Virgines	Lynwood
		1	2	3	4	5	6	7	8
Base Revenue Limit	A-1	6,441.49	5,799.62	5,805.11	5,792.90	5,528.15	5,792.80	5,788.69	5,791.94
Revenue Limit ADA	A-2	5,120.25	12,402.04	34,928.28	59,177.55	3,892.44	22,228.66	11,512.00	16,470.40
Total Revenue Limit									
Total Base Revenue Limit (A-1 * A-2)	B-1	32,982,039	71,927,119	202,762,508	342,809,629	21,517,992	128,766,182	66,639,399	95,395,569
Allowance for Necessary Small School	B-2	0	0	0	0	0	0	0	0
Total Base Revenue Limit with Necessary Small School Allowance (B-1 + B-2)	B-3	32,982,039	71,927,119	202,762,508	342,809,629	21,517,992	128,766,182	66,639,399	95,395,569
Gain or Loss from Interdistrict Attendance Agreements	B-4	0	0	0	0	0	0	0	0
Meals for Needy Pupils	B-5	77,273	327,760	0	11,936,292	0	2,449,048	0	277,621
Special Revenue Limit Adjustments	B-6	0	0	0	0	0	0	0	0
Miscellaneous Revenue Limit Adjustments	B-7	0	0	0	0	0	0	0	0
All Charter District Revenue Limit Adjustment	B-8	0	0	0	0	0	0	0	0
Beginning Teacher Salary Incentive Funding	B-9	98,768	240,079	672,494	1,134,248	74,221	169,377	87,974	123,114
Class Size Penalties Adjustment	B-10	0	0	0	0	0	0	0	0
Revenue Limit subject to the Deficits (Sum of B-3 through B-7 - B-8 + B-9 - B-10)									
Deficit Factor	C-2	1	1	1	1	1	1	1	1
Total Deficit Revenue Limit (C-1 * C-2)									
Unemployment Insurance Revenue	D-1	13,313	7,356	109,269	144,487	13,996	49,898	28,266	16,768
Longer Day/Year Penalty	D-2	0	0	0	0	0	0	0	0
Excess ROC/P Reserves Adjustment	D-3	0	0	0	0	0	0	0	0
PERS Adjustment	D-4	209,617	426,552	915,441	1,934,129	100,429	831,567	338,365	786,000
San Francisco Unified School District PERS Adjustment	D-5	0	0	0	0	0	0	0	0
PERS Safety Adjustment	D-6	0	0	0	0	0	0	0	0
Total Revenue Limit (Sum of C-3 + D-1 - D-2 - D-3 - D-4 + D-5 + D-6)	E-1	32,961,776	72,075,762	202,628,830	354,090,527	21,505,780	130,602,938	66,417,274	95,027,072
Local Revenue	E-2	24,522,269	20,217,857	44,727,725	83,893,878	12,389,950	28,072,964	30,143,545	4,716,390
Taxes as % of Entitlement		74.40%	28.05%	22.07%	23.69%	57.61%	21.49%	45.39%	4.96%
Total State Aid (Includes County Office Funds to be Transferred) ((E-1 - E-2 - E-3); If < 0 , E-4 = 0)									
Excess Tax Amount ((E-1 - E-2 - E-3) ; If > 0, F-1 = 0)	F-1	0	0	0	0	0	0	0	0

EXERCISES

DIRECTIONS

- 1 Determine if the district revenue limit is above or below statewide average (line 3)
- 2 Determine the overall dollar (loss) or increase the district receives as a result (line 5)
- 3 Determine the Unique district COLA % (line 9)
- 4 If the district has a Meals for Needy amount - determine per ADA amount (line 13)
- 5 Is there anything else about the district that is of interest? E.g. % of property tax? Other?

		Beverly Hills	Beverly Hills
District RL	1	6,441.49	6,441.49
State Wide Average	2	5,821	5,821
Variance (line 1 - line 2)	3		620.49
District ADA	4	5,120.25	5,120.25
ADA X Over/Under State Average (line 3 x line 4)	5		3,177,064
2006-07 Statewide Average	6	5,569	5,569
2006-07 District RL	7	6,189	6,189
2007-08 COLA	8	252	252
COLA % (line 8/ line7)	9		4.07%
2007-08 COLA as % of St Ave (line 8/ line 6)	10	4.53%	4.53%
Meal for Needy Pupils	11	77,273	77,273
District ADA	12	5,120.25	5,120.25
Meals for Needy Pupil per ADA	13		\$ 15.09

Check for Understanding

You now have an understanding of the basic Revenue Limit formula and some history about how we got there

Let's move on to the MOST **IMPORTANT** part of the equation

AVERAGE DAILY ATTENDANCE



ADA – Average Daily Attendance

- ❖ Districts funded on greater of current year or prior year ADA
- ❖ See Schedule of Revenue Limit Form for ADA calculations
 - Some variations for charter, district reorganization
 - Intent – district does not get unfair declining enrollment benefit
- ❖ District A has **9,000** ADA in 2006-07
- ❖ 2007-08 ADA declines to **8,000**
 - 2008-09 funding based on **8,000** ADA
 - Unless district grows higher than 8,000

GREATER OF CURRENT OR PRIOR YEAR ADA

		ACTUAL	FUNDED
1	2005-06	10,000	
2	2006-07	9,000	10,000
3	2007-08	8,000	9,000
4	2008-09	8,500	8,500

More Revenue Limit Details

ADA (Average Daily Attendance)

- Use Greater of Current year or Prior Year
- Days of student attendance divided by days of school operated for the time period being reported
- **Use P-2 ADA in MOST instances**
- Some exceptions – use Annual (ROC/P, Adult)

- P-1 ADA
 - Cumulative attendance as of last full school month ending December 30
 - Used for cash flow estimating ONLY

- P-2 ADA defined
 - Cumulative attendance as of last full school month ending **April 15**

- Annual ADA
 - Cumulative annual attendance. Used primarily for lottery funding



More Revenue Limit Details

❖ ADA (Average Daily Attendance)

- Use greater of current year or prior year
- Use P-2 ADA in MOST instances
 - Some exceptions – use **Annual**
 - ROC/P
 - Adult
 - NPS and NPS Extended Year (Non Public School)
 - NPS LCI and NPS LCI Extended Year (licensed childrens institution)
 - County Office Court School ADA
 - Community Day School
- A few other complications (details later)
 - Charter ADA
 - Necessary Small School ADA
 - Continuation ADA
 - County office ADA added then “subtracted” (special education and community school)

CBO Leadership Role with Regards to ADA

Step 1 – Accurate **ADA projections**

- Two most critical elements of budgeting
 - How many students? (income)
 - How many teachers and how much do they cost? (expenditures)
- Birth rate data
- Historical trends
- Building trends/yield factors



ADA – CBO Leadership Role

❖ Step 2 – Ongoing **Monthly (minimum) Monitoring** of ADA

- Review opening enrollments – compare to budget
- Monitor enrollment monthly
- Monitor ADA monthly (by site, and even by class)
- Compare ADA to enrollment – determine % of student attendance and research variances from the norm
- Compare CBEDS October Pupil count to historical data
- Review your actual attendance ratios for trends/problems
- Communicate the data to school site principals and other appropriate staff
- Create shared responsibility for attendance
- Explore all options to maximize; Saturday School, Independent Study, hourly programs
- **Is there a stated and shared district goal to get kids in their seats attending school?**
- Have you quantified the loss?

What's wrong with this picture?

March 1. District is in dire financial straits. Major budget reductions in 2008-09. Negotiations at impasse. Significant declining enrollment for the past several years.

CBO says... I am not updating my 2nd interim multi year 2008-09 projection because **I don't know my 2007-08 P-2 ADA**. The report won't be done until May 1. So we are building 2008-09 budget and making cuts based on 2008 Cbeds times a historical factor.

Sample

1	District Revenue Limit	\$ 6,000
2	Estimated categorical \$	\$ 500
3	Total Revenue Limit	\$ 6,500
4	P-2 Days	135
5	Revenue lost per day of absence	\$ 48
6	District Enrollment	10,000
7	% of attendance	0.96
8	ADA	9,600
9	"Lost" ADA	400
10	Average RL	\$ 6,000.00
11	Dollars Lost	\$ 2,400,000



ADA – CBO Leadership Role

❖ Step 3- **Review of Attendance Reports**

- Ensure data is reviewed for reasonableness and accuracy
- Review P-1 data and estimate P-2 data from P-1 data by reviewing historical trends.
 - E.g., High School ADA typically drops from P-1 to P-2
- Compare Projected ADA to Budgeted ADA

REVENUE TIP – Review school calendars for ADA maximization

School Calendar Discussion

EC 37201. (a) **A school month is 20 days or four weeks of five days each**, including legal holidays but excluding weekend makeup classes. For the purposes of counting attendance only in providing for a **school calendar the winter vacation period, or any portion thereof, may be excluded by the school district in the definition of a school month.**

(b) The provisions of subdivision (a) of this section are limited to defining a school month for attendance-counting purposes only.

Calendars

Review each school site for
maximum calendar

Example:

- **Elementary growing after December**
 - Set school month as close to April 15 as possible

- **High School declines after December**
 - Set school month as close at or after April 15 as possible, use prior month of March as cutoff

2008 – end April 11 or March 21

1 Last full school month ending on or before April 15

March & April 2008						
Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30	31	1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30			

2 Last full school month ending on or before April 15

March & April 2008						
Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30	31	1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30			

Example

District Declining after December

Example - District Decline 10% after December			
1	April 11 cutoff Date		
2	Students	# days	Appt Days
3	10,000	75	750,000
4	9,000	75	675,000
5	# Days =		1,425,000
6	Days of attendance		150
7	P-2 ADA		9,500
8			
9	Move Date to April 18 , cutoff becomes March 21		
10	Students	# days	Appt Days
11	10,000	75	750,000
12	9,000	60	540,000
13	# Days =		1,290,000
14	Days of attendance		135
15	P-2 ADA		9,556
16			
17	ADA increase		56
18	Revenue Limit		\$ 5,000.00
19	Increase Revenue		\$ 280,000

ADA – CBO Leadership Role

❖ Step 4 – **Audit of ADA**

- Don't assume your auditor will catch ADA issues
 - Be proactive and establish a review process
 - Errors can be very expensive
 - **ADA collection is a time intensive operation that can be prone to human error**
 - Common error – operator created spreadsheets that summarize computerized reports

- Ensure an ongoing review of ADA operations

- Do you have a written procedure on how ADA is collected and compiled?
 - The answer is probably yes – but can anyone find it?

- Does data collection match the written procedure for ADA?
 - Staff change and in the process procedures may change without your knowledge



Quiz



CBEDS Enrollment for Happy Valley K-6 School (2007-08)

- **Opening day** enrollment counts were **1,050**
- **1,000** Students reported in October **CBEDS** count
- School year started the first week of September
- P-1 report period ended in mid December

❖ P-1 ADA summary prepared by your staff shows **ADA of 900**

❖ Your first step is to review last year statistics

a	b	c	d	e	f
	Cbeds	appt. days	# days	P-1 ADA	ADA as % of Cbeds
				c/d	e/b
2006-07	900	60,500	70	864	0.96

❖ Question – **What ADA would you expect to be generated?** Does the reported ADA make sense?

ANSWER

a	b	c	d	e	f
	Cbeds	appt. days	# days	P-1 ADA	ADA as % of Cbeds
				c/d	e/b
2007-08	900	60,500	70	864	0.96

Prior Year Data indicates that P-1 ADA is 96% of CBEDS. Since ADA loss due to absence typically runs 4% to 5% on average statewide, that also makes sense.

With **1,000** students counted in October, I would expect to see an ADA of about **960**.

P-1 ADA of **900 indicates a serious problem** somewhere

- P-1 ADA is in error, absences are sky high, or CBEDS counts are inaccurate

Congratulations...

You have mastered understanding of

- **Basic concepts**
- **History**
- **ADA**
- **COLA**
- **Deficits**
- **Equalization**



Declining Enrollment

Odds are it will happen to your district if it has not already.

Growing districts should be planning on how they change spending patterns when growth stops.

Declining enrollment districts need a long term plan. Don't delay.

Growing districts versus Declining enrollment districts

- ❖ You are in a growing district. Your board has heard that growing districts have more financial flexibility than flat or declining enrollment districts. **For every 30 new students your district has to add a teacher and \$200 in supply money for each individual student.** Your Base Revenue Limit is \$6,000 per student. The following information also pertains to your district.

AVERAGE NEW TEACHER SALARY AND BENEFITS \$60,000.

- ❖ **QUESTION:** If you had facilities available at no additional cost and there were no other additional costs above any information provided in the above scenario, how would you show the financial impact of 40 additional students? Assume only one teacher added.

worksheet

		ADA	BRL		Total
1	New Revenue	40	\$ 6,000	<i>ADA x BRL</i>	
2	Cost of additional staff			<i>1 teacher</i>	
3	Supplies	40	\$ 200	<i>ADA x rate</i>	
4	Additional dollars available			<i>Line 1 - 2 -3</i>	

Growing districts versus Declining enrollment districts

- ❖ You are in a **DECLINING** district. You have lost 40 students (prior year loss with impact in the current year) and are only able to reduce one teacher and related supply costs (\$200 per student)

The teacher was newly hired at a total salary/benefit of \$50,000.

- ❖ **QUESTION:** What is the dollar amount of the additional reductions needed?

worksheet

		ADA	BRL		Total
1	Loss of Revenue	40	\$ 6,000	<i>ADA x BRL</i>	
2	Savings from lay off			<i>1 teacher</i>	
3	Supply savings	40	\$ 200	<i>ADA x rate</i>	
4	Additional budget reductions			<i>Line 1 - 2 -3</i>	

ANSWERS

		ADA	BRL		Total	Total
1	New Revenue	40	\$ 6,000	<i>ADA x BRL</i>		\$ 240,000
2	Cost of additional staff			<i>1 teacher</i>		\$ (60,000)
3	Supplies	40	\$ 200	<i>ADA x rate</i>		<u>\$ (8,000)</u>
4	Additional dollars available			<i>Line 1 - 2 -3</i>		\$ 172,000
		ADA	BRL		Total	Total
1	Loss of Revenue	40	\$ 6,000	<i>ADA x BRL</i>		\$ 240,000
2	Savings from lay off			<i>1 teacher</i>		\$ (50,000)
3	Supply savings	40	\$ 200	<i>ADA x rate</i>		<u>\$ (8,000)</u>
4	Additional budget reductions			<i>Line 1 - 2 -3</i>		\$ 182,000

**CONGRATULATIONS. YOU HAVE
MASTERED THE ONLY THING EASY
ABOUT DECLINING ENROLLMENT.**

Revenue Limit History Continued

Gann Limit (1979)

- Intent to limit government spending
 - Remember the rebate in 1986-87?
- Statutory changes enabled state to count more dollars in school agency Gann Limits - less in state limit – State Gann Limit OK
- Annual requirement to compute Gann Limit



Proposition 98 and 111 (1988)

- Guarantees education a piece of the budget - setting a minimum level
- Test 1, 2, 3

Proposition 98 BASICS

(from LAO* primer on Prop. 98 February 2005)

- ❖ California voters enacted Proposition 98 in 1988 as an amendment to the State Constitution. This measure, which was later amended by Proposition 111, establishes a minimum annual funding level for K-14 schools (K-12 schools and community colleges).
- ❖ While the formulas get rather complicated at times, the goal of Proposition 98 is a relatively straightforward one.
- ❖ Generally, Proposition 98 provides K-14 schools with a **guaranteed funding source that grows each year with the economy and the number of students.**
- ❖ The guaranteed funding is provided through a combination of state General Fund and local property tax revenues.

Proposition 98 BASICS

There Are Three Formulas (“Tests”) That Determine K-14 Funding.

The test used to determine overall funding in a given budget year depends on how the economy and General Fund revenues grow from year to year.

Test 1—Share of General Fund.

Provides around **41% of General Fund** revenues. While not applicable since 1988-89, this test may begin to determine the minimum guarantee near the end of the decade.

Proposition 98 BASICS

Test 2—Growth in Per Capita Personal Income.

Increases prior-year funding by **growth in attendance and per capita personal income**. Generally, this test is operative in years with normal to strong General Fund revenue growth.

Test 3—Growth in General Fund Revenues.

Increases prior-year funding by growth in **attendance and per capita General Fund revenues**. Generally, this test is operative when General Fund revenues fall or grow slowly.

Proposition 98 BASICS

Legislature Can Suspend Proposition 98.

With a **two-thirds vote**, the Legislature can **suspend** the guarantee for one year and provide any level of K-14 funding.

Mechanism Exists to Ensure Growth With Economy and Attendance.

When **Test 3 or suspension occurs**, the state creates a funding gap called the **maintenance factor**. Proposition 98 contains a mechanism to accelerate spending to restore the maintenance factor and close the gap in future years.

When Has the State Owed Maintenance Factor?

Generally, once a maintenance factor is created, it carries forward for several years until stronger General Fund revenue growth allows for a reduction of this obligation.

For example, as a result of several Test 3 years, the state created a maintenance factor in the early 1990s that grew to \$2.2 billion by 1993-94. As General Fund revenues recovered in the mid-1990s, the state provided accelerated Proposition 98 growth and fully restored the maintenance factor by 1997-98.

In recent years, the large outstanding maintenance factors are due to: (1) the dramatic revenue drop-off in 2001-02 (Test 3) and (2) the 2004-05 suspension.

Is Maintenance Factor a Loan That Must Be Repaid?

Per LAO, when the state creates a maintenance factor, the state is saving the amount of the maintenance factor.

And, while the General Fund savings are not permanent, the state never has to repay funding not provided to schools as a result of the maintenance factor.

For example, in 2004-05 under the Governor's proposed 2005-06 budget, the state saves \$3.1 billion by its suspension of Proposition 98 in the current year.

Under the existing Proposition 98 formulas, the state will, over time, provide accelerated growth to build the \$3.1 billion back into the Proposition 98 base.

Note: the promise was a \$2 b. suspension, not \$3 b.

Can the Legislature Provide More Than The Minimum Guarantee?

Yes. The state can provide funding above the Proposition 98 minimum guarantee in any fiscal year. However, since the additional funding becomes part of the Proposition 98 base for the next year's calculation, it becomes a permanent state obligation.

Appropriations above the minimum (often referred to as "over-appropriations") occurred annually for five years beginning in 1997-98, permanently raising the long-run Proposition 98 obligation level by almost \$3.7 billion

Proposition 98 Recent History

- ❖ 2002-03 mid year cuts averted
- ❖ 2003-04 no COLA, 1.2% cut
- ❖ 2004-05 \$2 b. suspension
- ❖ 2005-06 Broken promise
- ❖ 2006-07 Better Outlook but many issues remain
- ❖ 2007-08 COLA and not much else
- ❖ 2008-09 ?

Proposition 98

2002-03

❖ Dilemma at mid-year 2002-03

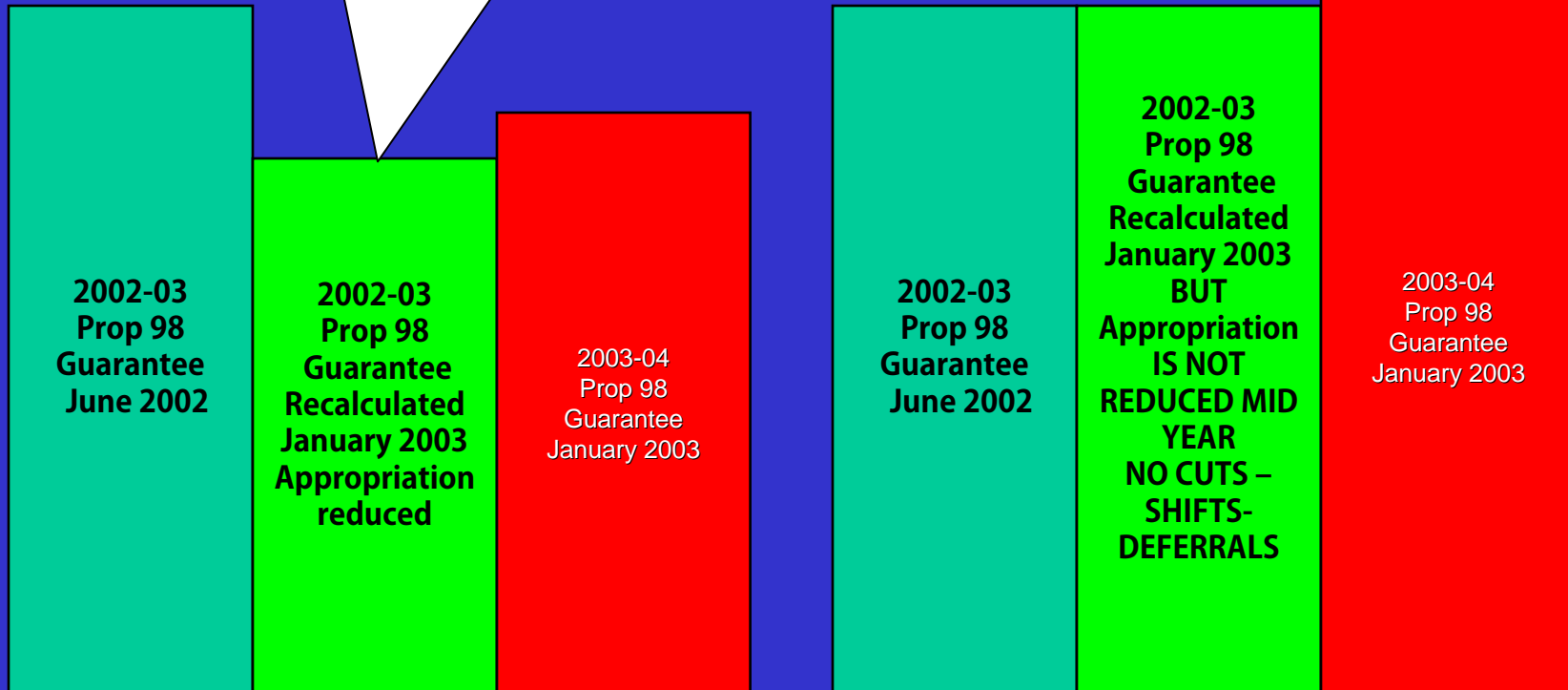
- Education (K-14) Prop. 98 budget in 2002-03 based on original (higher) estimate of state funding
- State funding dropped in 2002-03, education is “over-appropriated” in 2002-03
- 2003-04 State of CA budget drops again
- However, K-14 education guaranteed what they received in the prior year plus increase
- Therefore, Governor proposed reducing 2002-03 Proposition 98 education appropriation to revised Proposition 98 2002-03 funding levels to avoid the requirement to fund at the higher level in 2003-04



Prop 98 Dilemma Visual Representation

(not to scale)

Solution = Cut, Reduce
or DEFER



How 2002-03 Budget Debate started.. January 2003 to March 19, 2003

❖ **Governor's Proposal**

OR

❖ **AB X-8 or SB X-18**

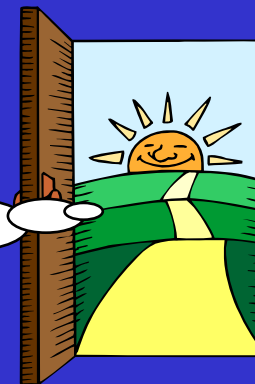
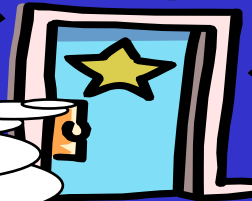
- **Senate/Assembly compromise**

February - Door #2?
2002-03 crisis may be delayed

❖ **Or some variation**

Or Door #3?
March 19, 2003
Governor signs SBX 18 –
major crisis delayed

January - Door #1?
Doom & Gloom
2.15% RL
reductions, 10.8%
categorical – MID
YEAR



How 2002-03 Mid Year Budget Debate Ended

Comparison (in thousands)	Governor	SB X1 -18
Ongoing across the board "cut" (2.15% RL & 10.8% categorical)	1,491,000	
June Deferral		1,087,000
Mandated Cost Claim Reimbursement		122,000
Instructional Materials Block Grant (26% reduction)		103,000
Peer Assistance & Review (25% reduction)		21,757
School Library Materials (33% reduction)		11,600
Underperforming Schools and High Priority Schools Grants (delay final pymt)		76,000
Suspension of Exams (Golden State/Career)		8,071
Cuts/Shifts/savings	781,000	970,572
Total	2,272,000	2,400,000

Budget Solution

Defer, Defer, Defer....

- ❖ June 2002, \$1.7 billion of K-14 Proposition 98 funds shifted out of 2001-02 budget to 2002-03 budget to lower the 2002-03 Prop. 98 funding requirement
- ❖ 2002-03 original budget proposed an additional \$681 million of 2002-03 funds be deferred into 2003-04 budget
 - SIP, Transportation, Supplemental Grants, TIIG (Targeted Instruction Improvement Grant)
- ❖ **June Principal Apportionment Deferral**
 - **Defer the June 2002-03 principal apportionment payment (primarily revenue limit funds) to July 2.**
 - **Continue (indefinitely) to make the June payment on July 2 of the next year.**
 - **Voila! Proposition 98 base reduced by \$1.087 billion!**
- ❖ 2003-04 Deferrals into 2004-05
 - \$370 million of deferrals; 10% Transportation, 100% School Safety Grants, 15% Targeted Instruction Improvement Grants, 12% 7-12 Remedial, 28% 2-6 At Risk, 92% Core, 8% GATE, 7% Adult Ed, 14% Community Day School, 13% Charter Block Grant.



Proposition 98
2003-04

Budget Crisis Continues

K-12 Education

NO COLA

1.2% reduction in funding

Proposition 98
2004-05

Budget Crisis Continues

**K-12 Education Community comes to
the table and agrees to
SUSPEND PROP 98
by \$2 billion**

**BUT... January 2005 when 2005-06
budget unveiled... more money was
available for 2004-05**

The Proposition 98 Debate January 2005

“To achieve balance in 2005-06, virtually every part of state government must take a reduction in the funding that it would otherwise have received if spending were allowed to grow unchecked. Left unaltered, the operation of Proposition 98 would have crowded out all available general funds – and would have resulted in deeper and more severe cuts to health and human services programs provided by the State.” (Governor’s Budget Introduction)

The Proposition 98 Debate

January 2005

*The Education Coalition believes it is **unconscionable that the Governor's proposed budget breaks the promise** he made to California's students and public schools. Last year, students and public schools **sacrificed \$2 billion** in ongoing cuts because the Governor promised that our schools would receive their fair share of any additional state revenues and would be spared cuts in future years. The Governor's budget proposal breaks his promise to California's six million students and takes even more money from our schools. **(Education Coalition Press Release)***

Note: The differences were resolved in 2006-07 (averting a lawsuit) . More on that later.

Proposition 98

❖ **2006-07 was a good year by many standards.**

❖ **2007-08 Mid Year dilemma again.**

Emergency session called.

Reduce Proposition 98 in 2007-08 to lower the state's requirement to fund in 2008-09.

2008-09 Is a suspension in our future?

CBO Leadership Role

Stay **abreast of** Budget Developments

- **January** Governor's Budget
- Legislative Analyst Report (**February**)
- **May** Revise
- Final Budget (**July**)
- Ongoing monitoring of legislation (**January to October**)
- School Services Updates/Other sources



Your job is to **advise** the Superintendent, Board, and Community about the State budget as it unfolds from January to final adoption in July/August/September...

CBO Leadership Role

- ❖ Be able to **explain** school funding basics such as **Prop 98** to a variety of audiences
- ❖ Acquire basic understanding of Proposition 98 in order to follow budget dialogue
- ❖ Be able to **explain the various percentages** being used in various venues to describe funding increases (or decreases)



Exception to the Rule

Public Explanation of **Gann Limit**

- Extra credit for someone who can develop an understandable presentation on their district Gann Limit



Telling the Story

You can tell the story a number of ways.

Lots of small numbers with gory detail (Not recommended)

**Numbers – but LARGE print – with extra slides
OR**

SIMPLY TELL THE STORY.....

Key to telling the story (Sample Provided)

- ❖ Adapt your presentation to your audience
- ❖ Disguise your accounting background
- ❖ What are the key elements that **your audience wants to know?**
- ❖ What are the key elements **you think the audience should take away with them?**
- ❖ Relax and honor the time limit provided.

DID WE MEET OUR OBJECTIVES?

Understand How Revenue Limit Funding Works

- Conceptual Understanding of the **basic formula** and exceptions.
- Understand the relationship of **state aid and taxes.**
- Understand the **role of ADA** in revenue limit funding.
- Understand how **historical legislative actions** impact funding today.

Did we meet our objectives?

Revenue limits

Understand **COLA, Deficits, Equalization**. Understand why each district has a **different revenue limit**.

Understand basic relationship of **ADA** with regards to funding.

Revenue limit % increases relative to negotiations – **begin the discussion** to understand the various ways of viewing the **% increase** in revenue.

GLOSSARY OF SCHOOL FINANCE TERMS

- ❖ **ADA—Average daily attendance.** There are several kinds of attendance, and these are counted in different ways. For regular attendance, ADA is equal to the average number of pupils actually attending classes who are enrolled for at least the minimum school day. Ever since 1998-99, excused absences no longer count toward ADA. In classes for adults and ROC/P, one unit of ADA is credited for each 525 classroom hours. Attendance is counted every day of the school year and is reported to the California Department of Education three times a year (see Attendance Reports). See also *Concurrently Enrolled* for a further definition of ADA.
- ❖ **AB 1200—Reference to AB 1200 (Chapter 1213/1991)** that imposed major fiscal accountability controls on school districts and county offices of education, by establishing minimum reserve levels and other requirements for agency budgets and fiscal practices. See especially Education Code Sections 1240 et seq. and 42131 et seq.
- ❖ **Ad valorem Taxes—Taxes that are based on the value of property, such as the standard property tax.** The only new taxes based on the value of property that are allowed today are those imposed by voter approval for capital facilities bonded indebtedness, with a vote requirement of either 55% for a Proposition 39 bond or a 2/3rds requirement for other bonds.
- ❖ **Apportionment—State aid given to a school district or county office of education.** Apportionments for revenue limits and special education are calculated four times for each school year: (1) the Advance Apportionment, which is based on an agency's prior year's state aid, is certified in July, (2) the First Principal Apportionment (P-1) is certified February 20 of the school year corresponding to the P-1 ADA (see Attendance Reports), (3) the Second Principal Apportionment (P-2) is certified by July 2 corresponding to the P-2 ADA, and (4) the annual recalculation of the apportionment is certified in February following the school year (at the same time as the P-1 Apportionment) and is based on P-2 ADA, except for programs where the annual count of ADA is used.
- ❖ **Appropriation Bill—A bill before the Legislature authorizing the expenditure of public money and stipulating the amount, manner and purpose for the expenditure items.**
- ❖ **Assessed Valuation (also, assessed value)—The total value of property within a school district as determined by state and county assessors.** The "AV" of a school district will influence the total property tax income of a school district. The percentage growth in statewide AV from one year to the next is an important ingredient in determining appropriations levels required from the state for fully funding district and county revenue limits, as well as for Proposition 98 calculations. Ever since Proposition 13, assessed value is reset to be the true market value only at the time of property transfer or new construction.
- ❖ **Attendance Reports—Each school district reports its attendance three times during a school year.** The First Principal Apportionment ADA, called the P-1 ADA or the P-1 count, is counted from July 1 through the last school month ending on or before December 31 of a school year. The Second Principal Apportionment ADA, called the P-2 ADA, is counted from July 1 through the last school month ending on or before April 15 of a school year. Fiscal or annual ADA is Based on the count from July 1 through June 30. The final recalculation of the apportionment is based on the P-2 ADA except for nonpublic school, community day school, extended year, adult education and regional occupational centers and programs, and nonpublic school funding, all of which use the annual count of ADA. Also, under certain circumstances when a district has a very large influx of migrant students in the spring, a district may request the use of annual ADA in lieu of P-2 ADA.

GLOSSARY

Base Revenue Limit—See *Revenue Limit*.

- ❖ **Basic Aid**—The California Constitution guarantees that each school district will receive a minimum amount of state aid, called “basic aid,” equal to \$120 per ADA or \$2,400 per district, whichever is greater. Per a change in state law effective 2003-04, state categorical aid is counted first toward meeting the minimum allocation of basic aid (ref. Education Code Section 41975). “Basic aid school districts” are districts where property taxes exceed the computed revenue limit; such districts receive no state aid for their revenue limit.
- ❖ **Categorical Aid**—Funds from the state or federal government granted to qualifying school agencies for specialized programs regulated and controlled by federal or state law or regulation. Examples include programs for children with special needs, such as special education and Gifted and Talented Education (GATE); special programs, such as the Pupil Retention Block Grant, or special purposes, such as transportation. Expenditure of most categorical aid is restricted to its particular purpose. The funds are granted to districts in addition to their revenue limit income.
- ❖ **CBEDS**—California Basic Education Data System—the statewide system of collecting enrollment, staffing, and salary data from all school districts on an “Information Day” each October.
- ❖ **Classified Personnel**—School employees who hold positions that do not require a credential, like aides, custodians, clerical support, cafeteria workers, bus drivers, etc.
- ❖ **Class Size Penalties**—The penalties imposed on school districts that have classes in excess of certain maximum sizes. (Class size penalties result in a reduction in ADA which, in turn, results in a loss in revenue limit income. See Education Code Sections 41376 and 41378.
- ❖ **Concurrently Enrolled**—Pupils who are enrolled both in a regular program for at least the minimum school day and also in a regional occupational center or program (ROC/P) or class for adults. Such a student will generate both regular ADA for the time in the regular program plus concurrently enrolled ADA for the time in ROC/P or adult classes. By qualifying for both regular ADA and concurrently enrolled ADA, such a student can generate more than one unit of ADA.
- ❖ **Consumer Price Index (CPI)**—A measure of the cost-of-living compiled by the United States Bureau of Labor Statistics. Separate indices of inflation are calculated regularly for the United States, California, some regions within California, and selected cities. The CPI is one of several measures of inflation.
- ❖ **Cost-of-Living Adjustment (COLA)**—An increase in funding for government programs, including revenue limits and categorical programs. Current law ties the COLA percentage for most education programs to the annual percentage change in the “Implicit Price Deflator” for State and Local Governments—a government price index. See Education Code Section 42238.1.
- ❖ **Criteria and Standards**—Local district budgets must meet state-adopted provisions of “criteria and standards.” These provisions establish minimum fiscal standards that school districts, county offices of education and the State use to monitor district fiscal solvency and accountability. See Education Code Sections 33127 et seq.
- ❖ **Declining Enrollment Adjustment**—A formula that cushions the drop in income in a district with a declining student population. Under current law, districts are funded for the greater of current year or prior year ADA. See Education Code Section 42238.5.
- ❖ **Deficit Factor**—When an appropriation to the State School Fund for revenue limits—or for any specific categorical program—is insufficient to pay all claims for state aid, a deficit factor is applied to reduce the allocation of state aid to the amount appropriated.
- ❖ **Economic Impact Aid (EIA)**—State categorical aid for districts with concentrations of children who are bilingual and/or from low income families.
- ❖ **Encroachment**—The expenditure of general purpose funds in support of a categorical program, i.e., the categorical expense encroaches into the district’s general fund for support. Encroachment occurs in most districts and county offices that provide special education and transportation. Encroachment in other programs may be caused by deficit factors or local decisions to allocate general purpose funds to special purpose programs.
- ❖ **Equalization Aid**—The extra state aid provided in some years to low revenue districts to promote revenue equalization among districts.
- ❖ **ERAF**—Education Revenue Augmentation Fund—the fund used to collect the property taxes that are shifted from cities, the county and special districts within each county, prior to their distribution to K-14 school agencies.
- ❖ **Forest Reserve Funds**—25% of funds received by a county from the United States Government from rentals of forest reserve lands are apportioned among the various districts in the county according to scholastic population.
- ❖ **Full-Time Equivalent (FTE)**—The ratio of time expended in a part-time position to that of a full-time position.

GLOSSARY

- ❖ **Gann Limit**—A limit on the appropriation of tax revenues of all levels of California government—the state, cities, counties, school agencies, and special districts imposed by Proposition 4, an initiative passed in November 1979 (ref. Article XIII B of the California Constitution). Using 1978-79 as a base year, subsequent years' limits have been adjusted for: (1) an inflation increase which is currently equal to the annual change in California per capita personal income, and (2) the change in population, which for school agencies is the change in ADA. Although officially called "Appropriation Limits," these limits are commonly called "Gann Limits" after Paul Gann, the author of Proposition 4.
- ❖ **Gifted and Talented Education (GATE)**—A program for students in grades 1 through 12 who have shown potential abilities of high performance capability and needing differentiated or accelerated education.
- ❖ **High Revenue Districts**—Districts that have a revenue limit per ADA that is greater than the state average for the same type of district (elementary, high school or unified). Many high revenue districts were formerly called "high wealth" because their assessed value per ADA was significantly above the statewide average.
- ❖ **Hold Harmless**—A formula providing a guarantee of no loss in funding for an agency when a change in law or data would otherwise require a loss in funding.
- ❖ **Implicit Price Deflator**—See *Cost-of-Living Adjustment*.
- ❖ **Leveling Down**—Lowering the revenue level of high revenue districts to promote revenue equity among school districts.
- ❖ **Leveling Up**—Raising the revenue level of low revenue districts to promote revenue equity among school districts.
- ❖ **Mandated Costs**—School district expenses that occur because of federal or state laws, decisions of state or federal courts, federal or state administrative regulations. See SB 90, 1977, and also Proposition 4, 1979.
- ❖ **Maintenance Factor**—See *Proposition 98*.
- ❖ **Miscellaneous Funds**—Local revenues received from mineral royalties or bonuses and other payments in lieu of taxes. Fifty percent of such revenues are used as an offset to state aid in the revenue limit formulas.
- ❖ **Necessary Small School**—An elementary school with 96 or fewer or high school with 286 or fewer ADA that meets the standards of being "necessary." See Education Code Sections 42280 et seq.
- ❖ **Parcel Tax**—A special tax that is a flat amount per parcel and not ad valorem based (i.e., not based on the assessed value of the property). Parcel taxes must be approved by a two-thirds vote of the electorate. See Government Code Section 50079, et al.
- ❖ **Permissive Override Tax**—Prior to Proposition 13, any of a number of local tax levies that were for specific purposes and that required only the permission of a school board to be levied. School agencies are no longer allowed to levy such taxes.
- ❖ **PERS**—Public Employees' Retirement System. State law requires that classified employees, their employer, and the state contribute to this retirement fund.
- ❖ **PL81-874**—A federal program of "Impact Aid" that provides funds to school agencies that educate children whose families live and/or work on federal property, such as military bases. Also called "PL874."
- ❖ **PL94-142**—Federal law that mandates a free appropriate public education (FAPE) for all disabled children. Also known as IDEA, the Individuals with Disabilities Education Act.
- ❖ **Prior Year's Taxes**—Tax revenues that had been delinquent in a prior year and that are received in the current fiscal year. These revenues offset state aid in the current year in the revenue limit formula.
- ❖ **Proposition 13**—An initiative amendment passed in June 1978 adding Article XIII A to the California Constitution. Under Proposition 13, the maximum total property tax rate for all government operations—including school agencies, cities, counties, and special districts—is 1% of assessed value and additional property tax levies may only be made for voter approved debt. Proposition 13 also defined assessed value and required a two-thirds vote to levy any special purpose tax.

GLOSSARY

- ❖ **Proposition 98**—An initiative adopted in 1988 and then amended by Proposition 111 in 1990. Proposition 98 contains three major provisions: (1) a minimum level of state funding for K-14 school agencies (unless suspended by the Legislature); (2) a formula for allocating any state tax revenues in excess of the state's Gann Limit; and, (3) the requirement that a School Accountability Report Card be prepared for every school. The minimum funding base is set equal to the greater of the amount of state aid determined by two formulas, commonly called "Test 1" and "Test 2" unless an alternative formula, known as "Test 3," applies.
- ❖ "Test 1" originally provided that K-14 school agencies shall receive at least 40.319% of state general fund tax revenues in each year, the same percentage as was appropriated for K-14 school agencies in 1986-87. Due to the shifts in property taxes between local governments and K-14 agencies, the "Test 1" percentage has been reset to be TK% in 2006-07.
- ❖ "Test 2" provides that K-14 school agencies shall receive at least the same amount of combined state aid and local tax dollars as was received in the prior year, adjusted for the statewide growth in K-12 ADA and an inflation factor equal to the annual percentage change in per capita personal income.
- ❖ "Test 3" only applies in years in which the annual percentage change in per capita state general fund tax revenues plus 1/2% is lower than the "Test 2" inflation factor (i.e., the change in per capita personal income), in which case the inflation factor is reduced to the annual percentage change in per capita state general fund tax revenues plus 1/2%.
- ❖ One of the provisions of Proposition 98 (as amended by Proposition 111/1990) applies only if the minimum funding level is reduced due either to "Test 3" or the suspension of the minimum funding level by the Legislature and Governor. In such a situation, a "maintenance factor" is initially set equal to the amount of that year's funding reduction due to "Test 3" or suspension, and this amount grows each year by statewide ADA growth and the "Test 2" inflation factor. In subsequent years when state taxes per capita grow faster than personal income per capita, this "maintenance factor" is restored by increasing the Proposition 98 minimum funding level until the funding base is fully restored. This restoration process is applied prospectively only, and there is no requirement that the revenue loss in the year or years prior to the maintenance factor being fully restored be made up.
- ❖ **Reserves**—Funds set aside in a school agency budget to provide for economic uncertainties, future expenditures, working capital, or other purposes.
- ❖ **Revenue Limit**—The amount of revenue that a district can collect annually for general purposes from local property taxes and state aid. The revenue limit is composed of a base revenue limit—a basic education amount per unit of ADA computed by formula each year from the previous year's base revenue limit—and any of the number of revenue limit adjustments that are computed anew each year.
- ❖ The total revenue limit of a school district is determined by multiplying the district's funded level of ADA by its base revenue limit and then adding all of the applicable revenue limit adjustments. A district's total revenue limit is funded from a school district's property tax income and state aid.
- ❖ **ROC/P**—Regional Occupational Center or Program—a vocational educational program for high school students and adults. A ROC/P may be operated by a single district, by a consortium of districts under a joint powers agreement (JPA), or by a county office of education for the districts within the county.
- ❖ **SB 90**—Reference to either:
- ❖ Senate Bill 90/1972, which established the revenue limit system for funding school districts. The first revenue limit amount was determined by dividing the district's 1972-73 state and property tax income by that year's ADA. This original per-ADA amount became the historical base for all subsequent revenue limit calculations.
- ❖ Senate Bill 90/1977, which required that the state reimburse state-imposed mandates on local governments.

GLOSSARY

- ❖ SB 813—Reference to Senate Bill 813/1983 that provided a series of education “reforms” in funding calculations. Longer day, longer year, mentor teachers, and beginning teacher salary adjustments are a few of the programs implemented by this 1983 legislation.
- ❖ Secured Roll—That portion of the assessed value that is stationary, i.e., land and buildings. See also *Unsecured Roll*. The secured roll averages about 90% of the taxable property in a district.
- ❖ *Serrano* Decision—In 1974, the California Superior Court in Los Angeles County ruled in the *Serrano v. Priest* case that school district revenues in California depended so heavily on local property taxes that students in districts with a low assessed value per pupil were denied an equal educational opportunity in violation of the “Equal Protection” clause of the California Constitution. This ruling established certain standards under which the school finance system would be constitutional and was upheld by the California Supreme Court in 1976. In 1983, the California Superior Court in Los Angeles County ruled that the system of school finance in effect at that time was in compliance with the earlier Court order. After several appeals, in March 1989, all of the plaintiffs in the case agreed to dismiss their legal challenges, thereby settling *Serrano* as a legal issue.
- ❖ Squeeze Formula—The formula used from 1973-74 through 1981-82 for the calculation of the annual inflation increase in the base revenue limit that provided smaller-than-average increases to high revenue districts. This formula thus “squeezed” the revenues of high revenue districts as a means of promoting revenue equalization. Effective 1983-84, the squeeze formula was eliminated and all districts of the same type now receive the same dollar inflation increase.
- ❖ State School Fund—Each year the state appropriates money to this fund, which is then used to make state aid payments to school agencies. Section A of the State School Fund is for K-12 education and Section B is for community college education.
- ❖ Subventions—The term used to describe assistance or financial support, usually from higher governmental units to local governments or school agencies. State aid to school agencies is a state subvention.
- ❖ Sunset—The termination of a categorical program. A schedule is in current law for the Legislature to consider the “sunset” of most state categorical programs. If a program sunsets under this schedule, the funding for the program shall continue for the general purposes of the program, but the specific laws and regulations shall no longer apply.
- ❖ Supplemental Roll—An additional property tax assessment for properties that are sold or newly constructed that reflect a higher market value than on their prior lien date. By taxing this increase in assessed value immediately—rather than waiting until the next lien date—additional property taxes are generated.
- ❖ Test 1/Test 2/Test 3—See *Proposition 98*.
- ❖ Unsecured Roll—That portion of assessed property that is movable, such as boats, planes, etc.
- ❖ Waivers—Permission from the State Board of Education—or, in some cases, from the Superintendent of Public Instruction—to set aside the requirements of an Education Code provision upon the request of a school district. See Education Code Section 33050.