

California School Financing
A Fable (of sorts)

Presented by Ron Little
Chief Financial Officer
San Diego Unified School District

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ONCE UPON A TIME...

*School District Boards in CA had the authority to levy taxes.
Most took this responsibility very seriously, lest they not be chosen
again by their constituents in the next election cycle.*

TAX REVENUES WERE BASED ON DISTRICT PROPERTY VALUES

School District Boards could tax their constituents (i.e.- property owners) within their boundaries a percentage of their property values. For example, Paradise School District, with assessed Property Values of \$1.0 Billion, could tax residents at 1% each year and generate \$10 Million of revenues for the District annually.

THE SANDS OF TIME PASSED...

For awhile, all was (ostensibly) well in the Kingdom.

But then, some school districts observed— while comparing themselves to their neighbors— that others with greater property value could issue more taxes. For example, a 1% tax levy by East Paradise School District, with total assessed Property Values of \$350 Mil, could only generate only \$3.5 Mil of annual revenues for their students.

AHA MOMENT! ...

For the same 1% levy rate!

The reality of the Kingdom of CA was that the Greater the assessed Property Value of a School District the Greater the Potential Revenues. Less Wealthy Districts would have to tax their constituents at a higher rate to generate similar levels of revenues.

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SERRANO VERSUS PRIEST

1968 / 1971 / 1976

In the year 1968, a parent challenged the inequity of the system through the court system.

The Supreme Court ruled in 1976 declaring that CA's school finance system was so dependent on local property wealth that it violated the state's constitutional "equal protection" rights of students in the less wealthy districts. Essentially, the Court argued, those students were denied their right to equal educational opportunities.

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SENATE BILL (SB) 90 1971

Recognizing the validity of the Serrano v. Priest arguments, the Kingdom took action prior to the Supreme Court's ruling. In the year 1971, after a State Superior Court Ruling, CA passed a law that established a system of revenue limit controls that capped the maximum amount of general purpose state and local revenues a district could receive.

SENATE BILL (SB) 90 1971

The new law established the following:

- *Base Revenue Limit (BRL)*
- *Per ADA increment*
- *Plus Annual Adjustments*

Effectively, SB90 usurped the authority of local school boards to unlimitedly tax its constituency.

SENATE BILL (SB) 90 1971

Revenue Limit Entitlement = BRL x ADA + Adjustments

In addition, Base Revenue Limits were “leveled up” through an

- *Equalization Factor*

to decrease the disparity among school districts.

A MAJOR STUMBLING BLOCK!

Proposition 13 Passes in 1978

Time passed, and then the people of the Kingdom, in their infinite wisdom, declared that they had (collectively) been taxed to the maximum of their wherewithal. Prop 13 passed in 1978 and wrought havoc on all the prior plans of the Kingdom.

By slashing Property Taxes an average of 60%!

A MAJOR STUMBLING BLOCK!

Proposition 13 Passes in 1978

*Prop 13 limited the general purpose property tax rate
FOR ALL GOVERNMENTAL AGENCIES to 1.0%.*

*Effectively, Prop 13 undermined school districts' ability to levy taxes
on their constituents and, instead, relegated that role to the State.*

Here's how:

PRE-PROP 13

<i>BRL</i>	<i>x</i>	<i>ADA</i>	<i>=</i>	<i>Revenue Limit Entitlement</i>
\$4,000	<i>x</i>	5,000 ADA	<i>=</i>	\$20,000,000
<i>less State Aid (% of AV per ADA)</i>				<u>- \$5,000,000</u>
<i>Maximum Tax District can Levy</i>				\$15,000,000

In this model Districts were guaranteed their Rev Lim Entitlement.

POST-PROP 13

$$\begin{array}{rclcl} \textit{BRL} & \times & \textit{ADA} & = & \textit{Revenue Limit Entitlement} \\ \$4,000 & \times & 5,000 \textit{ ADA} & = & \$20,000,000 \\ \textit{less District's Share of 1\% GP PT} & & & & \underline{- \$12,000,000} \\ \textit{State Aid} & & & & \$ 8,000,000 \end{array}$$

In this model Districts are beholden to the State.

POST-PROP 13

*However, some districts in the Kingdom were still more charmed than others. These gentle folk are known as **Basic Aid School Districts**. They have the fortune of having property taxes exceed their revenue limit entitlement. Therefore, they need no State Aid. But, and here is where Fortune smiles upon them, they also to get to keep all their excess property tax revenues over and above their entitlement.*

Think: Beverly Hills, Palo Alto, etc...

THE SANDS OF TIME PASSED...

For the next many years, school districts rode a crazy roller coaster of state funding, replete with periodic recessions and subsequent “bailouts” as the Kingdom spent down its large general fund reserves to keep school districts operating.

MIRROR, MIRROR...

Paul Gann, who co-wrote Prop 13, continued his “taxpayers revolt” and in the year 1979 passed Proposition 4

Prop 4 established constitutional limits on the allowable growth in State and Local spending. These appropriation limits— known as GANN LIMITS— allowed government spending to grow at a rate no faster than inflation and the change in population.

MIRROR, MIRROR...

Paul Gann, who co-wrote Prop 13, continued his “taxpayers revolt” and in the year 1979 passed Proposition 4

Nearly a decade of incessant calculations and of School & Other Public Agency Finance Professionals holding their breath lest they exceed the Gann Limit. Not to mention projected years of State Budget cuts to meet the limit, even though the revenues were most often available. Finally, supporters of K-12 education reached their frustration maximum.

SOMETHING ALTOGETHER SIMILAR...

In the year 1988 the people of the Kingdom, in their infinite wisdom, adopted Proposition 98, designed to provide stability to school funding by establishing a funding floor, henceforth.

Prop 98 provided K-14 education with a constitutionally protected piece of the State Budget pie and provided that they would receive the benefit of any Gann limit excess revenues.

PROP 98: LET ME MAKE THIS PERFECTLY CLEAR... 1988

Test 1: Share of the General Fund. Provides about 43% of the State's General Fund revenues to schools each year. This test has not been used since 1988-89.

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 State General Fund revenue growth.

PROP 98: LET ME MAKE THIS PERFECTLY CLEAR... 1988

Test 3: Growth in General Fund Revenues. This Test was added by Prop 111 in 1990 that amended the Prop 98 application. 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.

Bottom Line: Test 3 gauges the State's ability to pay

PROP 98: SUSPENSION, TEST 3, & THE MAINTENANCE FACTOR

The Kingdom realized that, although the goal of stability (& growth) was noble indeed, in some very troubling years it may not be capable of achieving the minimum required funding level. It decreed that the Legislature could suspend the “guarantee” for a one year period with a two-thirds vote.

PROP 98: SUSPENSION, TEST 3, & THE MAINTENANCE FACTOR

When Test 3 years or Suspension occurs, the Kingdom provides less growth in K-14 funding than growth in the economy. This funding gap is called the Maintenance Factor. The Maintenance Factor measures how much the State would need to “pay” to bring the Prop 98 base to constitutionally required levels. In 2011/12 the Maintenance Factor obligation is worth \$9.9 Billion to K-14.

That equates to about \$160 Million to San Diego Unified. Each Year!

PROP 98: THE DEFICIT FACTOR

One other machination. The State is required by law to provide funding for Cost of Living Adjustments (COLAs) and Enrollment Growth.

However, in many years the Kingdom argues that it simply does not have the funds to provide this additional funding. To mitigate this requirement, the State imposes a deficit factor on districts' revenue limit formulas. Basically, it says for every \$1 dollar the Kingdom owes you, we can make good on 80 cents.

PROP 98: THE DEFICIT FACTOR

The Current Deficit Factor is 19.754%.

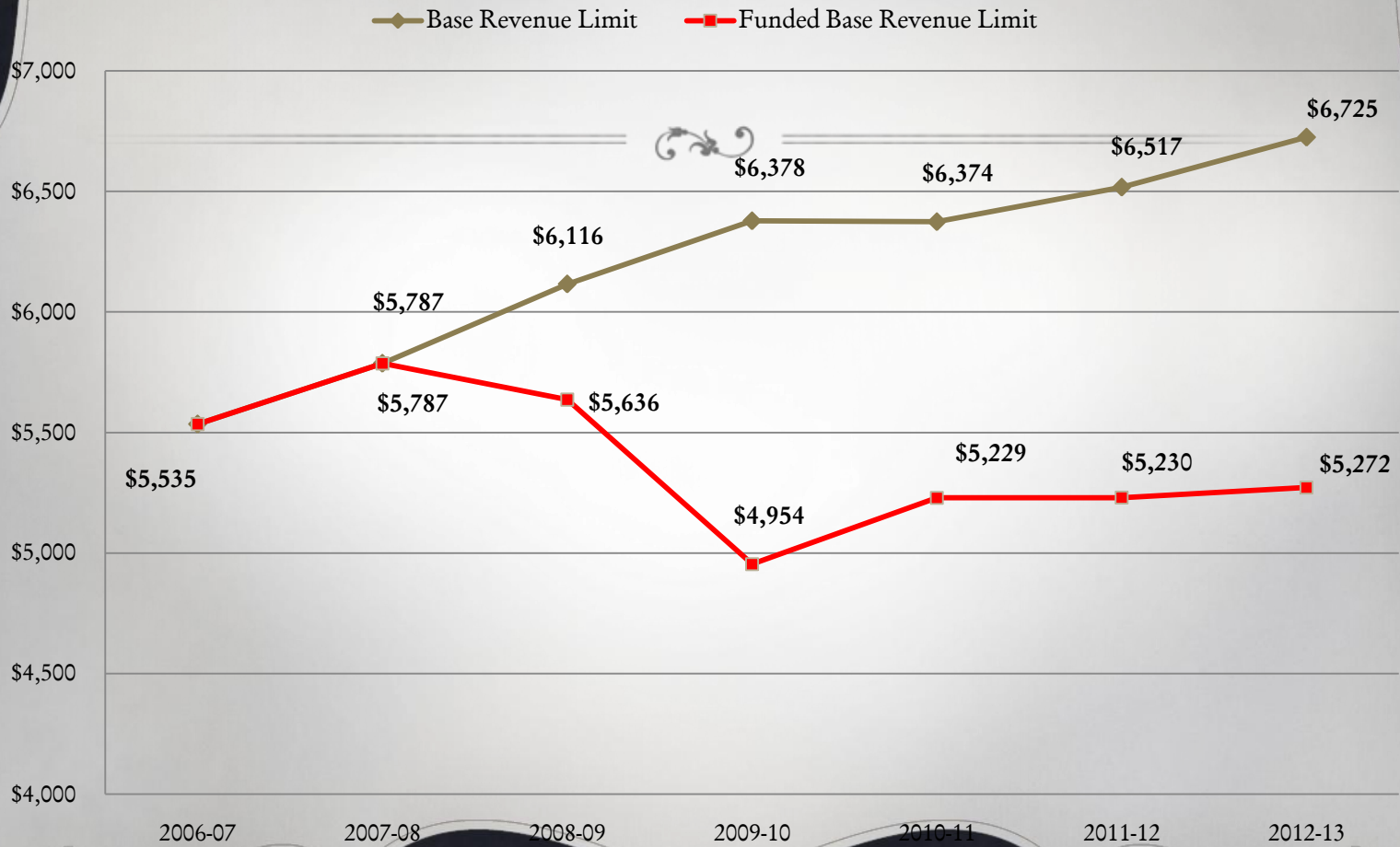
Here's how that impacts San Diego Unified.

BRL x ADA = Rev Lim Entitlement

\$6,517 x 109,000 = \$710.4 Million

\$710.4 Mil (1.0 - 0.19754) = \$570.0 Million

San Diego Unified School District: Statutory versus Actual Per ADA Funding





AS IF ALL THIS WERE NOT
ENOUGH...

*...To discourage the dedicated public servants who wish only to
provide quality educational programs and opportunities to the
Kingdom's children
(and adults)...*

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I WOULD GLADLY PAY YOU TOMORROW... (SINCE 2003)

The Kingdom realized that, even with all these manipulations of Prop 98, often it did not possess the CASH to make the requisite payments to school districts. For many complicated reasons, far outside the purview of this fable, the Kingdom found its coffers dry.

I WOULD GLADLY PAY YOU TOMORROW...(SINCE 2003)

*In its infinite wisdom the Kingdom implemented the concept of
“DEFERRALS”*

*Which push the payment of obligations to further back in the current
fiscal year or even into the next fiscal year!*

*Currently, nearly 40% of all State apportionments are deferred and
nearly 20% are deferred to the following year.*

I WOULD GLADLY PAY YOU TOMORROW ...(SINCE 2003)

*This unfortunate is-ness causes local school districts within the Kingdom to **borrow** CASH from outside agencies, as well as internally from other funds, in order to make payroll and compensate its hard working team members.*

*There is also a real cost to borrowing short-term funds from the financial markets. (Not to mention the cost to jump through myriad hoops!) **Interest fees** are paid to large lending firms and removed from our students' educational opportunities.*

2012/13 GOVERNOR'S PROPOSED BUDGET (JAN 2012)

Revenue Limits and Growth:

- *The Governor's Budget estimates the 2012/13 COLA at 3.17%*
- *It increases the Deficit Factor from 19.754% to 21.666% to negate the COLA*

The Governor's May Revise will present actual statutory COLA, revised deficit factor, and the most current financial projections.



2012/13 GOVERNOR'S PROPOSED BUDGET (JAN 2012)

- *Prop 98 Guarantee estimated at \$52.5 Billion*
- *Represents a \$4.9 Billion increase year-over-year*
- *Predicated on a Successful Tax Initiative on November 2012 Ballot that would generate \$6.9 Billion of Revenues*

2012/13 GOVERNOR'S PROPOSED BUDGET (JAN 2012)

Assuming Voters Approve the Nov 2012 Tax Initiative

- *School Districts would receive FLAT FUNDING in 2012/13*
- *That doesn't help with increasing costs (!)*
- *The additional State revenues would "pay down" deferrals*
- *Improving Districts' cash positions*

2012/13 GOVERNOR'S PROPOSED BUDGET (JAN 2012)

*Assuming Voters **Do Not Approve** the Nov 2012 Tax Initiative
the Prop 98 Base Guarantee would be reduced by \$4.8 Billion*

- *\$2.4 Billion of deferrals reinstated (bad for cash)*
- *\$2.4 Billion of reductions to K-12 estimated at \$370/ ADA*
- ***\$41 Million (ongoing) loss** to San Diego Unified at mid year*

IF ONLY THERE WERE BETTER NEWS...

*Those who hear this tale of woe often ask, to their credit:
“What about all the other Funding: Federal, Lottery, Local, et cetera?”*

Alas, Prop 98 comprises about 65% of all school district funding. By comparison, Federal Funds comprise about 12% of funding, but are most often targeted to specific student populations. Local Revenues are about 4% and Lottery funds represent less than 2% of total school district funding on average.



IF ONLY THERE WERE BETTER
NEWS...

Perhaps it is time for a substantive change.

Questions ?