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# Basic Aid School Districts

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## Summary

From 1972 to 2013, California school districts received general purpose funds known as a “revenue limit” through a mix of local property taxes and state aid. Some districts, known as “basic aid” or “excess tax” districts, fund their revenue limit entirely through property taxes and receive no general purpose state aid. They also retain any excess property taxes within their district. Starting in 2013–14, a district’s general purpose funds will be calculated through a new Local Control Funding Formula (LCFF). As under the revenue limit system, the LCFF entitlement will be financed through a mix of property taxes and state aid. Although the LCFF entitlement will be greater than the revenue limit entitlement for most districts, a majority of the current basic aid districts will retain their status.

This report focuses on basic aid districts. It describes how districts attain basic aid status and examines how basic aid districts differ from other school districts in their demographic characteristics. Basic aid districts are generally more advantaged than other districts. Their residents have higher average salaries and home values. However, they are not a homogenous group of districts. They are concentrated in the San Francisco Bay Area and along California’s eastern border with Nevada; and as one might expect, when basic aid districts are categorized by their geographic location, differences emerge. Coastal basic aid districts have more educated and wealthy residents and very high home prices, while inland basic aid districts tend to be very small, with property taxes spread over fewer students. Some basic aid districts have only become so because of the budget cuts following the Great Recession. Once the LCFF is fully implemented, we can expect most of those districts to lose their basic aid status. Thus, the basic aid districts in the future will largely be the same districts that were basic aid districts prior to the recession.

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A technical appendix to this paper is available on the PPIC website:  
[www.ppic.org/content/pubs/other/913MWR\\_appendix.pdf](http://www.ppic.org/content/pubs/other/913MWR_appendix.pdf)

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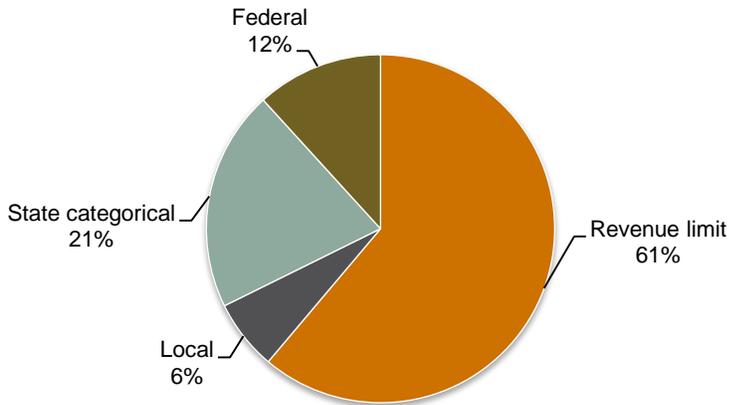
## Abbreviations

ADA	Average daily attendance
API	Academic Performance Index
CDE	California Department of Education
ERAF	Educational Revenue Augmentation Fund
LAO	Legislative Analyst's Office
LCFF	Local Control Funding Formula
NSS	Necessary small schools

# Introduction

For forty years, school districts in California received revenue from four main sources: “revenue limit” funding (financed through property taxes and state aid), local revenue raised by school districts, state “categorical” aid restricted to specific programs and purposes, and federal categorical aid (Figure 1).

**FIGURE 1**  
School districts receive funding from a variety of sources

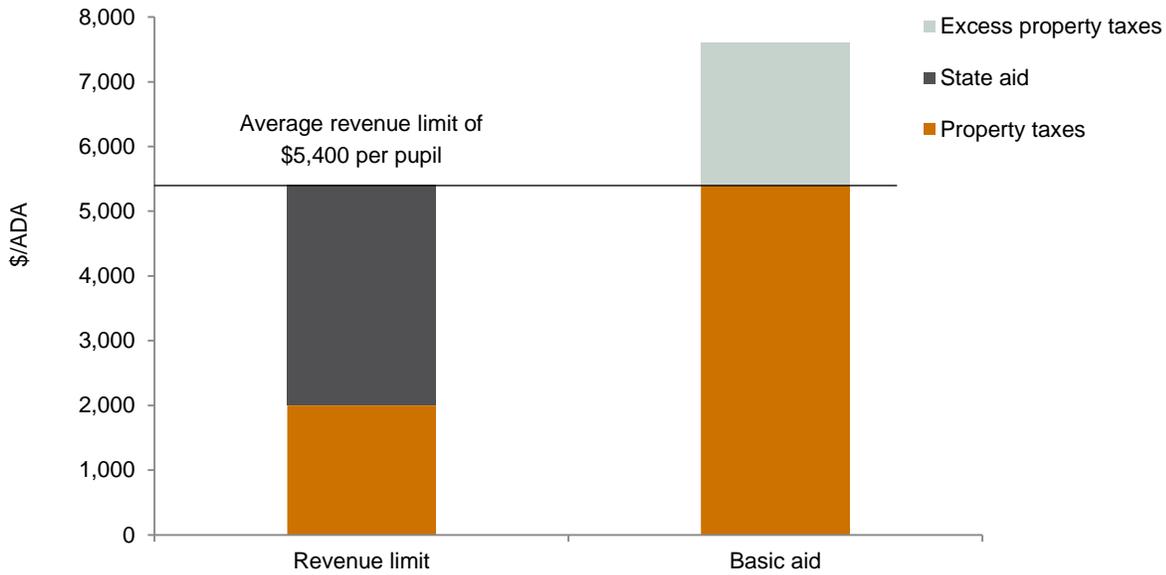


SOURCE: Education Data Partnership.

Revenue limit funding constituted the majority of school financing, providing general purpose funds for basic school operations such as teacher salaries. The revenue limit was a per pupil funding level unique to each school district, based on its historical spending levels.<sup>1</sup> Figure 2 offers an example of revenue limit financing in the case of two districts with a statewide average revenue limit of \$5,400 per pupil. The first bar represents a district in which property taxes met 35 percent of the revenue limit, or about \$2,000 per pupil (as depicted by the orange section of the bar). The difference between the property taxes per pupil and the revenue limit was filled by state aid, about \$3,400 per pupil (as depicted by the grey section of the bar). Districts that received state aid to meet their revenue limit were called revenue limit districts.

<sup>1</sup> See Weston (2010) for a description of the history of revenue limits and its calculation. Essentially, each district has a base revenue limit (\$/pupil) based on its 1972–73 expenditures that has since been adjusted for inflation and equalized within six categories of districts based on type (elementary, high school, unified) and size (small, large). The base revenue limit is multiplied by a specific count of average daily attendance (ADA) and then adjusted to reach the total dollar entitlement. The adjustments range from separate allocations for Necessary Small Schools (NSS)—i.e., small, isolated schools—to accounting issues (withdrawing funds for exceeding statutory class size maximums). Total property taxes are then subtracted from the entitlement to calculate state aid.

**FIGURE 2**  
**Revenue limits are financed through a mix of property taxes and state aid**



SOURCE: PPIC School Finance Model (2013).

NOTE: All figures and tables exclude statewide benefits that charter school districts and two all-charter districts (Hickman Community Charter and Pioneer Union Elementary in Kings County) receive through the charter school block grant in lieu of revenue limit.

Some districts took in more property taxes than their revenue limit; they were able not only to meet the revenue limit of \$5,400 per pupil but also had some property taxes left over (as represented by the light blue section in the second bar). These districts were called “basic aid” or “excess tax” districts. In 2010–11, 125 districts enrolling 5 percent of California students had excess taxes totaling approximately \$600 million, ranging from \$7 to \$30,000 per pupil. On average, these excess property taxes provided an additional \$2,200 per pupil in these districts. Although this funding was substantial in those districts, if the excess taxes were instead collected by the state and redistributed equally across all districts, they would only have averaged a little more than \$100 per pupil.

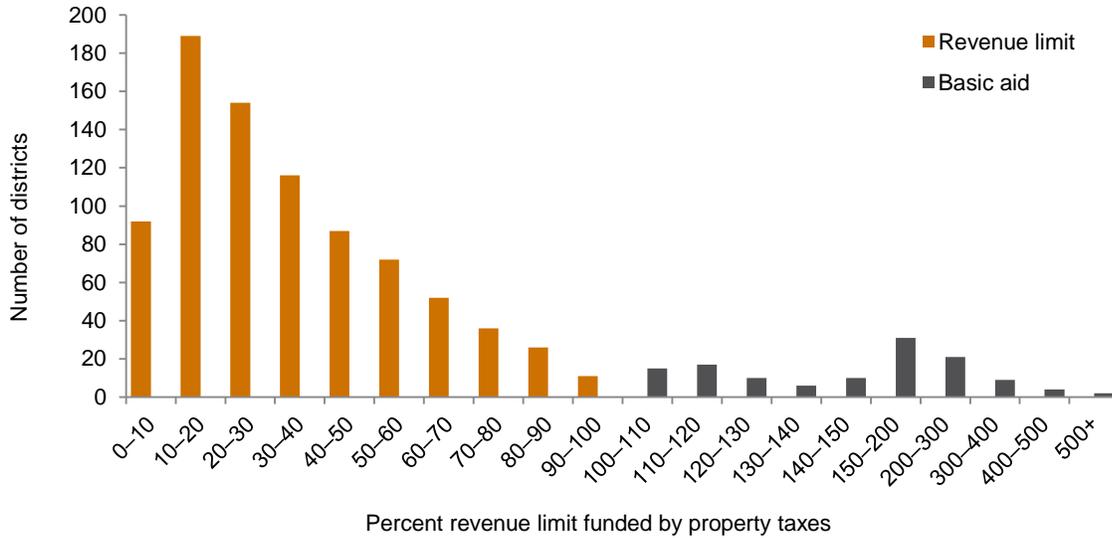
The term “basic aid” can be confusing because it would seem to imply that these districts received less funding than other districts—that they received only some basic level of assistance. The term stems from the constitutionally required minimum funding that the state must provide to each district (the greater of \$120 per pupil or \$2,400 in total).<sup>2</sup> To avoid this confusion, many school finance experts prefer the term “excess taxes” to describe the property taxes that exceed the revenue limit and are retained by the districts.

The vast majority of California’s school districts are revenue limit districts. Figure 3 groups districts by the percent of their revenue limit funded by property taxes. Districts in which property taxes cover up to 100 percent of their revenue limit are revenue limit districts, which are represented by the orange bars in the figure. About 13 percent of districts receive property taxes in excess of 100 percent of their revenue limit;

<sup>2</sup> Prior to 2003, this minimum had to be met by revenue limit state aid. Even if property taxes exceeded the revenue limit, the state would provide this minimum general purpose funding. Following AB 1754 (Chapter 227, Statutes of 2003), this minimum level of funding could be met by any state funds, including state categorical aid, resulting in a statewide reduction of \$17.8 million to basic aid districts (California Department of Education, 2003). Under Proposition 30 (2012), basic aid districts are entitled to the minimum \$200 per pupil from the Education Protection Account (California Department of Education, 2013).

these basic aid districts are represented by the grey bars in the figure. Most basic aid districts receive less than twice, or 200 percent, of their revenue limit in property taxes, but in a very few cases, property taxes represent more than four times, or 400 percent, of their revenue limit.

**FIGURE 3**  
**Most school districts in California are revenue limit districts dependent upon state aid**



SOURCE: 2010–11 Revenue limit funding calculation, Second Principal Apportionment, California Department of Education.

Starting in 2013–14, revenue limits and half of categorical aid will instead be distributed through the Local Control Funding Formula (LCFF).<sup>3</sup> This formula provides an average of about \$7,500 per pupil in base funding for all students, although this base rate varies by grade level. On top of this base funding, districts receive an additional 20 percent of the base for each disadvantaged student and even more funding if more than 55 percent of students in the district are disadvantaged. Like the revenue limit system, the district’s property taxes will first be applied toward the LCFF entitlement, and then state aid will fill any gap between the entitlement and property taxes. Once fully implemented, the LCFF entitlement for most districts will be much greater than their revenue limit. It is likely that some current basic aid districts will lose their basic aid status because their property taxes will no longer exceed this larger LCFF entitlement. However, as under the old system, many districts are still likely to have property taxes that exceed their entitlement.

Because the process and underlying conditions for basic aid status will remain the same under the LCFF and because back-of-the-envelope calculations suggest that more than three-quarters of current basic aid districts will remain so under the LCFF, it is important to understand what causes districts to become basic aid and which districts are likely to retain their basic aid status. This paper examines the characteristics of basic aid districts, including their geographic location, the demographic and socioeconomic characteristics of their students and residents, and their total funding in comparison to revenue limit districts. We use fiscal year 2010–11 data from the PPIC School Finance Model (2013) and the California Department of Education (CDE). Thus, our discussion necessarily focuses on California’s school finance system as it existed prior to July 2013. However, we also provide some initial projections with regard to which districts will be basic aid districts upon full implementation of the LCFF.

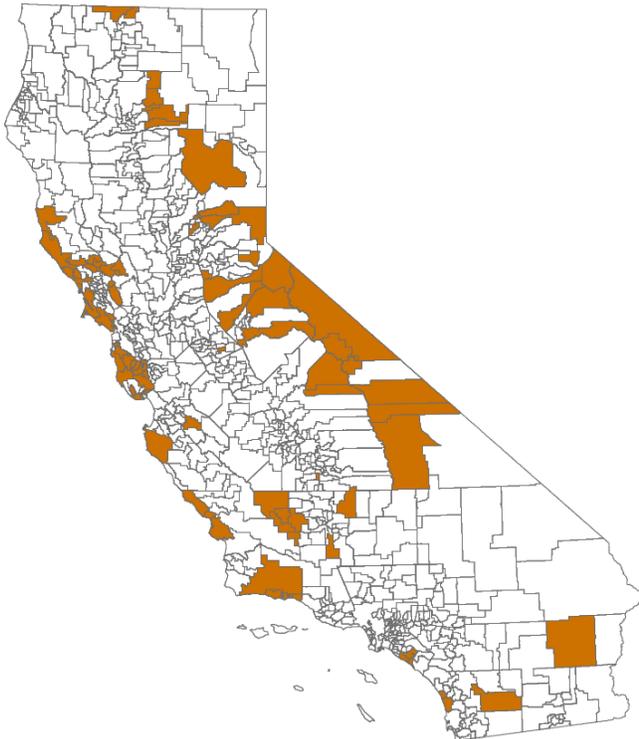
<sup>3</sup> Chapter 47, Statutes of 2013.

# Basic Aid Characteristics

## Location

Although basic aid districts are located throughout California, they tend to be concentrated along the northern coast and eastern border of the state, as depicted by the orange shading in Figure 4.<sup>4</sup> One-third of all of the school districts in the San Francisco Bay Area have excess taxes, and more than 40 percent of all basic aid districts lie in the nine-county Bay Area.<sup>5</sup> About 30 percent of basic aid districts are located along the coast south of the Bay Area, and the remaining 30 percent are located in inland counties.

**FIGURE 4**  
Basic aid districts are located primarily along the coast and the Sierras



SOURCE: California Department of Education (2011).

## District Type and Size

A majority (63%) of basic aid districts are elementary districts that serve students in grades K–8 (Table 1). Basic aid districts also tend to enroll fewer students compared to revenue limit districts, particularly those located in inland counties. Revenue limit districts enroll 6,400 students, on average, compared to 2,200 students in basic aid districts. As is the case in revenue limit districts, unified basic aid districts enroll more students than high school and elementary basic aid districts.

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<sup>4</sup> A complete list of basic aid districts is available each year from the California Department of Education. See the principal apportionment section of the CDE website, which includes “Other Fiscal Information” and therein a link to Section 75.70 of the Revenue and Taxation Code and a list of basic aid districts. For 2010–11, the data are available at [www.cde.ca.gov/fg/aa/pa/ada75701011.asp](http://www.cde.ca.gov/fg/aa/pa/ada75701011.asp) (basic aid status appears in column H).

<sup>5</sup> Basic aid districts are not equally distributed through the nine-county Bay Area: Alameda, Contra Costa, San Francisco, and Solano Counties have no basic aid districts. Conversely, 13 of 19 districts in Marin County and 4 of 5 districts in Napa County are basic aid.

**TABLE 1**  
**Number of districts and average enrollment by district type and basic aid status, 2010–11**

	Revenue limit		Basic aid, coastal		Basic aid, inland	
	Number of districts	Average ADA	Number of districts	Average ADA	Number of districts	Average ADA
Elementary	464	2,275	54	1,301	25	175
High School	69	7,097	12	4,864	1	767
Unified	302	12,573	22	5,780	11	1,084

SOURCES: PPIC School Finance Model (2013).

## Demographic and Socioeconomic Characteristics

When all basic aid districts are compared to revenue limit districts, basic aid districts appear more advantaged in terms of the income and education of their residents. However, there are big differences between coastal and inland basic aid districts (Table 2). Coastal basic aid districts tend to have substantially higher average household income (\$86,000) compared to revenue limit districts (\$61,000), but inland basic aid districts actually have lower average household income (\$54,000). The proportion of adults with a college degree in coastal basic aid districts is nearly double that of revenue limit and inland basic aid districts. This trend carries over into the percentage of adults who have a graduate degree, with nearly 25 percent of adults in coastal basic aid districts holding a graduate degree compared to less than 10 percent in revenue limit and inland basic aid districts.

Student characteristics closely match the characteristics of adults or households: coastal basic aid districts have fewer students receiving free or reduced-price lunch and fewer English learners. Given the strong relationship between socioeconomic status and test scores, it is not surprising that coastal basic aid districts have the highest average Academic Performance Index (API) scores compared to other districts.<sup>6</sup>

Of course, the coastal areas of the state—and particularly the Bay Area—are generally more advantaged than the rest of the state, with higher median incomes and lower unemployment rates.<sup>7</sup> However, when coastal basic aid districts are compared only to other coastal revenue limit districts, they still appear advantaged in terms of income and other demographic characteristics.

**TABLE 2**  
**Demographic and socioeconomic characteristics by basic aid status, 2010–11**

	Revenue limit	Basic aid, coastal	Basic aid, inland
Average household income (\$)	60,928	86,263	53,755
College-educated adults (%)	27	54	27
Born in California (%)	54	48	63
Household speaks only English (%)	56	66	87
White residents (%)	40	59	79
Enrolled in private school (%)	8	16	8
Free and reduced-price lunch (%)	57	25	46
English learners (%)	24	17	14
White students (%)	26	47	62
2011 API	782	864	797

SOURCES: American Community Survey Five-Year Averages, U.S. Census Bureau, 2011; PPIC School Finance Model (2013)

NOTES: Means are weighted by adult residents, total residents, or district average daily attendance. All differences in means are statistically significant at the 0.01 level.

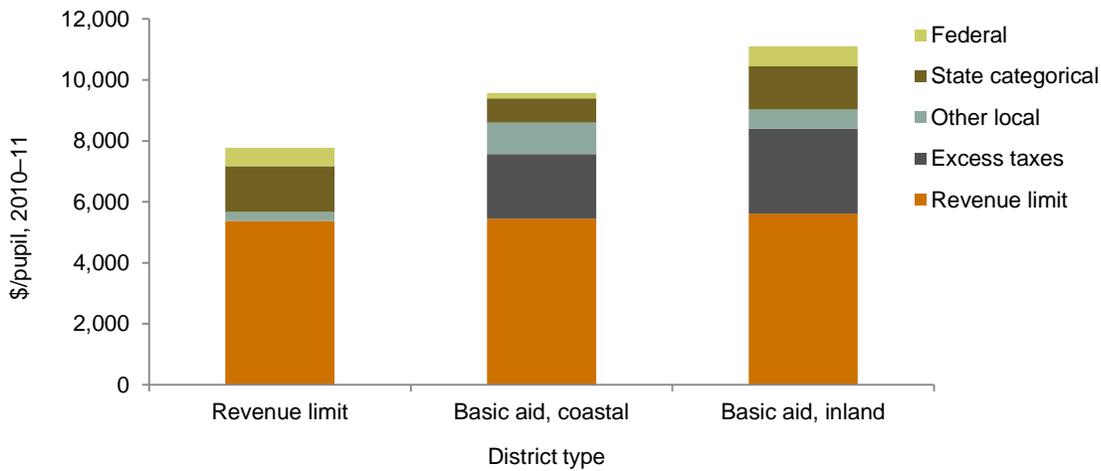
<sup>6</sup> The API measures the academic performance of schools based on a variety of student assessments. It ranges from 200 to 1000, with a state goal of 800. Coastal basic aid districts exceed the state goal of 800; basic aid and revenue limit districts are, on average, just shy of the state's goal.

<sup>7</sup> Bohn and Schiff (2011), Franchise Tax Board (2011), Johnson (2002), Legislative Analyst's Office (2000). See also Medina (2012) and accompanying *New York Times* infographics: [www.nytimes.com/interactive/2012/04/14/us/economic-divide-in-california.html?\\_r=1&](http://www.nytimes.com/interactive/2012/04/14/us/economic-divide-in-california.html?_r=1&).

# Basic Aid Funding

Most of the commentaries on basic aid districts focus on the advantages of the additional funding that excess taxes provide and how they contribute to large variations in funding and spending per pupil across California.<sup>8</sup> Indeed, these excess taxes provide, on average, an additional \$2,200 per pupil. However, some of this difference is offset by other sources of funding. Figure 5 depicts per pupil funding levels by source of revenue for the four main sources of revenue.

**FIGURE 5**  
Basic aid districts have more funding than revenue limit districts



SOURCE: PPIC School Finance Model (2013).

NOTES: State categorical excludes regional programs where allocation of funding across members is not available, including special education, regional occupational centers and programs, and the teacher credentialing block grant. Total categorical for districts with excess taxes also include the basic aid reduction.

In addition to having higher excess taxes, basic aid districts raise more local revenue. Coastal basic aid districts raise the most local revenue, approximately \$1,000 per pupil, compared to \$630 per pupil in inland basic aid districts and less than \$300 per pupil in revenue limit districts. Much of this local revenue comes in the form of parcel taxes. Nearly a third (31%) of basic aid districts have parcel taxes—a fee on each parcel of land within the district—compared to just 8 percent of revenue limit districts.<sup>9</sup> Parcel taxes, unlike basic aid status, is largely a Bay Area phenomenon, and districts with parcel taxes share similar demographic characteristics with coastal basic aid districts and are more advantaged than districts without parcel taxes.

In contrast, coastal basic aid districts receive less state and federal categorical aid than revenue limit districts, while inland basic aid districts actually look quite similar to revenue limit districts in this dimension. We would expect basic aid districts to receive less state categorical revenue because the state has reduced categorical aid to basic aid districts by approximately \$400–600 per pupil, so that the aid is commensurate with the cuts that revenue limit districts have taken because of the recession.<sup>10</sup> Since basic aid districts fund their entire revenue limit, their revenue

<sup>8</sup> For example, see Freedberg (2011) and Weston (2010). See also Rosenblatt (2008) that details how basic aid districts were largely unaffected by the large cuts to revenue limits due to the Great Recession.

<sup>9</sup> See Brunner (2001), Chavez and Freedberg (2013), and Eric McGhee and Margaret Weston (2013) for more information about districts with parcel taxes.

<sup>10</sup> Per SB 70 (Chapter 7, Statutes of 2011), categorical funds were reduced proportionally to cuts sustained by revenue limit districts. Each district's reduction was based on 8.92 percent of its revenue limit subject to the deficit factor. Weston (2010) explains the revenue limit calculation, but basically the 8.92 percent cut was applied to the base revenue limit, any funding for necessary small schools, and some revenue limit adjustments that have essentially

limit funding has been largely unaffected by the cuts experienced by the revenue limit districts. We would also expect coastal basic aid districts to receive less state and federal aid because the government programs largely target disadvantaged students.<sup>11</sup> As noted above, coastal basic aid districts enroll fewer disadvantaged students.

However, state and federal categorical funding of inland basic aid districts is comparable to the funding received by the revenue limit districts, despite the cuts to state categorical aid. As noted above, inland basic aid districts enroll fewer disadvantaged students than revenue limit districts, but they do have many more students on free or reduced-price lunch compared to coastal basic aid districts. In addition, inland basic aid districts receive funding for special federal programs, such as in-lieu property taxes and forest reserves funding. This includes federal impact aid, an in-lieu property tax on federal lands such as American Indian lands and military bases. About 20 percent of inland basic aid districts receive an average of \$430 per pupil in federal impact aid. Only 10 percent of coastal basic aid districts and revenue limit districts receive federal impact aid, and the funding levels are much less. Funding for forest reserves provides another source of federal revenue. Nearly 80 percent of inland basic aid districts receive forest reserves funds averaging \$170 per pupil, compared to less than 30 percent of revenue limit districts with just \$11 per pupil.

While Figure 5, above, displays the average level of each source of funding, there is considerable variation across the state. Some revenue limit districts, typically very small elementary districts, have funding levels comparable to basic aid districts, despite having no excess taxes. Of the 40 districts with more than \$20,000 per pupil in total funding, only 21 are basic aid districts; and altogether, these 40 districts enroll less than 3,800 students. The [technical appendix](#) of this report provides a graphic presentation of the variation in each source of revenue by basic aid status.

Although basic aid districts have higher average revenues than revenue limit districts, they may also have higher costs. Basic aid districts along the coast offer higher minimum teacher salaries, which in part reflect the labor markets in which they operate and compete for teachers. One way to examine costs is to look at the regional labor market in which districts operate. Rose and Sengupta (2007) examined teacher salaries by regional markets across California and found that teacher salaries are higher in areas with higher wages for college-educated non-teachers. With 40 percent of basic aid districts located in the higher-wage Bay Area, their excess taxes may be compensating for the costs not recognized by the state.

In contrast, inland basic aid districts may face extra costs because of their size. About 30 percent of basic aid districts are located in the more rural inland counties. The state has a separate special funding formula for very small, isolated schools that is part of the revenue limit calculation.<sup>12</sup> More than half of inland basic aid districts reported average daily attendance in these small rural schools that may have qualified for this alternative funding formula at some point over the past 10 years.<sup>13</sup> The remaining inland basic aid districts have an average enrollment of 900 students. Basic aid districts located in these inland counties may face higher costs from diseconomies of scale that, for revenue limit districts, may be recognized by the state through the special funding program for small and isolated schools.

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been folded into the base revenue limit (e.g., meals for needy pupils). That total reduction was then acquired through reductions to various categorical programs, with some programs excluded. Basic aid districts were still entitled to the minimum state aid required by the state Constitution.

<sup>11</sup> Rose and Weston (2013).

<sup>12</sup> These schools meet the NSS criteria defined in Education Code 42283 and are eligible for substantially more funding per pupil to compensate for their diseconomies of scale. Districts must have fewer than 2,501 ADA, have an elementary school with fewer than 96 ADA or a high school with fewer than 286 ADA, and meet specified geographical criteria. Funding is based on staffing requirements. See Weston (2010) and LAO (2011). The NSS adjustment is a separate funding formula within the revenue limit calculation for these schools.

<sup>13</sup> Basic aid districts have enough property taxes to finance these small schools and do not receive state funding. In some cases, current inland basic aid districts were not basic aid districts in the past and received funding through the NSS adjustment. As districts attain basic aid status for several years, they may no longer report NSS ADA because the state is not financing the adjustment. Basic aid districts with these schools can choose to forego the NSS status and therefore not allocate property taxes to these schools according to the NSS formula.

# Basic Aid Factors

The determination of whether or not a school district is a basic aid district depends upon a number of factors. Essentially, property taxes per pupil must be greater than the district's revenue limit to achieve basic aid status. However, as of 2013–14, property taxes will need to exceed the LCFF entitlement.

This section explores the five principal factors that contribute to the determination of whether or not a school district is a basic aid district. The first three factors may explain why a district would have higher-than-average property tax revenue per pupil. Property taxes per pupil are a function of the total taxes collected based on the value of real property in the district, the share of those total taxes allocated to each local government, and the number of pupils over which those taxes are spread. The two other contributing factors relate to the revenue limit; basic aid status is more likely achieved if a district has a lower-than-average revenue limit.

## Historical Allocations

In 1978, voters passed Proposition 13, which created a uniform statewide property tax of 1 percent of assessed value and limited increases in assessed value to 2 percent per year. Prior to the proposition, school districts and other local governments set their own property tax rates. But with the passage of the proposition, property taxes fell 57 percent and the state needed to devise a way to allocate the reduced property tax revenue.<sup>14</sup> Senate Bill 154 (Chapter 292, Statutes of 1978) created a one-year solution that was followed by Assembly Bill 8 (Chapter 282, Statutes of 1979). Essentially, AB 8 froze the proportions of property tax allocations among local governments to their pre-Proposition 13 levels. The proportion of countywide property taxes a local government received prior to Proposition 13 would be maintained, with local governments receiving the same *proportion* of the taxes generated by the new 1 percent tax rate. In 2010–11, the property tax contributed nearly \$50 billion statewide to local governments, with school districts and community colleges receiving 54 percent of all property taxes (California Board of Equalization, 2012).

A substantial difference existed across counties, however, in the distribution of the *average* 54 percent allocation of property tax revenues to school districts. And such differences still exist. For example, in Alpine County, 26 percent of property taxes go to education and 62 percent to county government. In Santa Clara County, 62 percent of property taxes are allocated to education, 15 percent to the county government, and 9 percent to city governments. The [technical appendix](#) of this report provides the Board of Equalization property tax allocations among local governments by county.<sup>15</sup>

The exact proportion of the 1 percent property tax provided to each school district is not readily available. However, it is likely that the difference in the share of the property taxes allocated among local governments, as well as the share of the education allocation among various school districts within a county, may contribute to basic aid status.

## Tax Assessments

Geographic differences in property assessments are also a contributing factor to the variation in property tax revenue per pupil. Although the assessed value of properties by school district is not readily available, the American Community Survey asks respondents about their home values, which are available by school

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<sup>14</sup> O'Sullivan, Sexton, and Sheffrin (1995).

<sup>15</sup> See California Board of Equalization Annual Report (2012), Statistical Appendix, Table 15.

district and are related to assessed value. Obviously, the 1 percent property tax produces more revenue on more-expensive homes, and the median value of homes is much greater in coastal basic aid districts than in revenue limit districts (Table 3). In fact, 33 percent of the homes in coastal basic aid districts are valued at \$1 million or more compared to just 7 percent of the homes in revenue limit districts.<sup>16</sup>

**TABLE 3**  
Housing characteristics by basic aid status, 2011

	Revenue limit	Basic aid, coastal	Basic aid, inland
Median Value (\$)	428,617	813,967	389,253
Valued at \$1 million or more (%)	7	33	5
Residents moved into residence before 1990 (%)	37	39	42
Residents moved into residence after 2005 (%)	41	41	37
Owners (%)	58	57	72

SOURCES: American Community Survey Five-Year Averages; U.S. Census Bureau, 2011.

NOTES: Means weighted by number of housing units. All differences in means are statistically significant at the 0.01 level.

The effect of higher property taxes due to higher home values is likely mitigated somewhat by the way property taxes are assessed in California (i.e., property taxes are assessed on the price of a home when it is sold). Under Proposition 13, assessed values are allowed to increase no more than 2 percent per year. Therefore, the actual value of a house—the expected price it would receive if sold—may not always match its assessed value. This is particularly true of residents who have lived in their homes for a long time. As shown in Table 3, a higher percentage of residents in basic aid districts have lived in the same home for at least 20 years (since before 1990) compared to residents in revenue limit districts. This may mean that residents in basic aid districts are paying taxes on an assessed value much lower than market value.

Inland basic aid districts differ from coastal basic aid districts in several ways. The inland districts have lower average home values and a higher share of residents living in homes that likely have a lower assessed value than market value. However, these districts may have other forms of property wealth. For example, forest and timber production represent a large share of the Sierra economy. Not surprisingly, inland basic aid districts are more likely to receive revenue from the timber yield tax. About 57 percent of inland basic aid districts received timber yield tax revenues averaging \$10 per pupil in 2010–11. Total statewide timber yield tax revenues allocated to schools in 2010–11 was less than \$2 million, or about 33 cents per pupil. In contrast, about 30 percent of revenue limit and coastal basic aid districts receive timber yield revenue of a few dollars per pupil.

## Children per Household

A third possible property tax explanation for basic aid status is the number of students per household. Basic aid districts generally have fewer children per household, and thus the total property taxes generated are spread over fewer children, resulting in more property tax revenue per pupil. There are 0.52 children per household in revenue limit districts compared with 0.36 children per household in coastal basic aid districts

<sup>16</sup> One might argue that revenue limit districts *throughout* California are not an appropriate comparison group for *coastal* basic aid districts. However, when we restrict the comparison group to coastal revenue limit districts, the differences remain; and if we further restrict our analysis to Bay Area basic aid and revenue limit districts, the differences remain.

and 0.18 children per household in inland basic aid districts. All else equal, fewer children per household would lead to more property taxes per pupil.

So far, the explanations for greater property taxes per pupil have focused on static levels, rather than historical changes. The allocation of property taxes among local governments is frozen at AB 8 levels, which means that the distribution has remained static.<sup>17</sup> Yet the number of basic aid districts has been increasing over time. One can imagine, particularly in the peak years of the housing bubble, that growth in property taxes due to increasing home prices may have led some districts into basic aid status. Similarly, changes in student enrollment could lead to changes in property taxes per pupil over time. A decline in the number of students within the district over time (assuming no change in other district factors such as home values) may induce a district into basic aid status, since the property taxes generated are spread over fewer students. Declining enrollment has been a particular issue in inland basic aid districts, where average daily attendance for these districts in 2010 was 22 percent lower than its 2005 level. This compares to a total reduction in enrollment of about 2 percent in revenue limit districts and a *growth* of 3 percent in coastal basic aid districts.

## Revenue Limit Adjustments

In the preceding sections, we examined differences between basic aid and revenue limit districts related to property taxes per pupil. In this section, we explore factors related to revenue limits that may explain basic aid status.

Revenue limits are based on historical expenditures that have been updated for inflation and equalization over time. One possible explanation for basic aid status might be a lower-than-average revenue limit, which might occur for two reasons: First, despite equalization efforts, a district might still have a very low per pupil entitlement. Revenue limits have been equalized within six categories of districts based on their type (elementary, high school, unified) and size (small, large). Elementary districts have the lowest average revenue limits and high school districts have the highest. Small districts within each district type have larger revenue limits. A second possible reason for basic aid status is that a district may have gained few “adjustments” or “add-ons” during the revenue limit calculation. Weston (2010) documents these adjustments, most of which are small in magnitude and based on historical factors.

Despite these possible explanations, lower revenue limits do not appear to be the driving force behind basic aid status. Revenue limits are about \$86 per pupil greater, on average, in basic aid districts than in revenue limit districts. However, this average difference is not statistically significant and is highly related to the number of districts that fall into each of the six district type/size equalization categories. As we noted above, most basic aid districts are elementary districts and much smaller than revenue limit districts. Figure 6 shows total revenue limit funds per pupil for elementary districts by size and basic aid status.

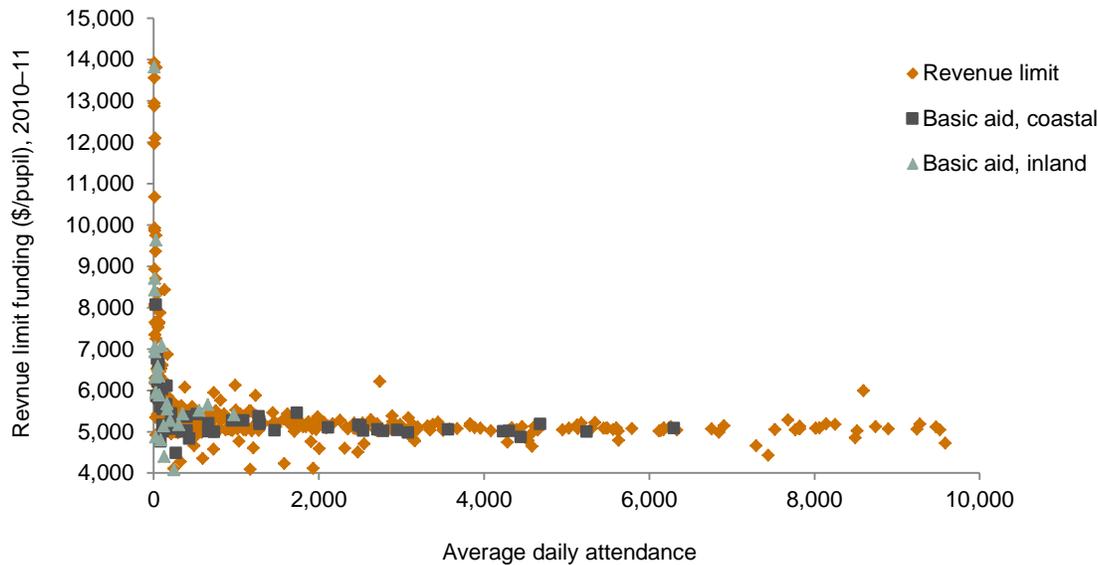
Regardless of basic aid status, very small districts have the largest revenue limits due to the special NSS funding formula for very small, isolated schools. As district size increases, particularly above about 2,000 students, there is less variation in revenue limit funds per pupil, with almost all districts falling along the

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<sup>17</sup> The only exception to this is that in the 1990s, the state twice changed the property tax allocation system under the auspices of the Educational Revenue Augmentation Fund (ERAF). This legislation shifted property tax revenue from the cities, county, and special districts to K–14 school agencies in order to reduce revenue limit state aid. See Legislative Analyst’s Office (2006) and League of California Cities (2009) for more information about ERAF.

same line of about \$5,000 per pupil. Most of the variation in revenue limit funds per pupil comes from “add-ons” or “adjustments” made in the revenue limit calculation. There does not appear to be any relationship between revenue limit funds per pupil and basic aid status.

**FIGURE 6**  
Revenue limit funds per pupil do not appear to be related to basic aid status



SOURCE: Revenue limit and base adjustment calculations are based on Second Principal Apportionment, California Department of Education (2011).

NOTES: The figure depicts total revenue limits for 2010–11. The figure excludes 23 districts with more than 10,000 students each.

## Budget Cuts

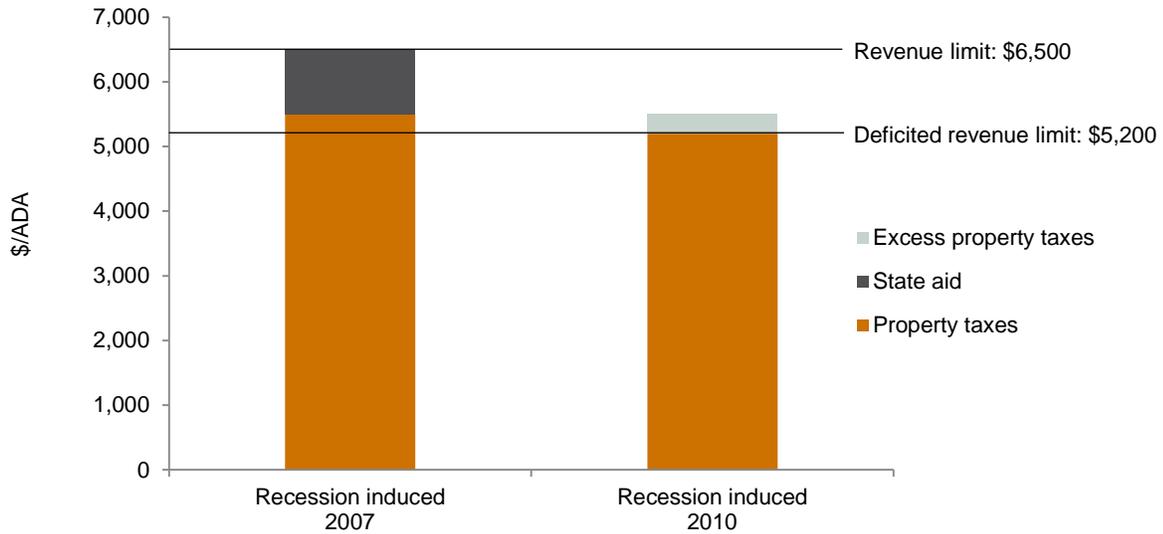
Although the revenue limit entitlement does not appear to be associated with basic aid status, a related issue has induced some districts into basic aid status over the past few years. When the state cannot afford to pay for the entire revenue limit, it applies a “deficit factor,” the proportion of funding it can afford. Since the Great Recession, revenue limit funding is about 20 percent below statutory funding levels.<sup>18</sup> This deficit means that some districts have become basic aid districts because the overall revenue limit has declined, rather than because of a substantial increase in property taxes. Prior to the recession, property taxes covered 80–100 percent of these districts’ revenue limit. Of the 125 basic aid districts in existence today, 32 have become basic aid districts only because of the deficit factor.

Figure 7 shows how a district may have become a “recession-induced” basic aid district as a result of the deficit factor. The first bar in the figure represents a district in 2007–08 with a revenue limit of \$6,500 per pupil. The district’s property taxes covered \$5,500 per pupil, as represented by the orange segment of the bar. To meet the \$6,500 revenue limit, the state provided \$1,000 per pupil (grey segment of the bar). In 2010–11, because of the approximate 0.80 deficit factor, the district’s revenue limit is \$5,200. The district still receives \$5,500 in property taxes, which means that property taxes cover the entire \$5,200 revenue limit (orange bar) and it now has \$300 per pupil in excess taxes (light blue bar). Although this district has now become a basic aid district, it lost \$1,000 per pupil in revenue limit state aid. Districts that were basic aid

<sup>18</sup> In 2010–11, the deficit factor was 0.82037. In 2012–13, the deficit factor was 0.77728. The deficit factor is not applied to the entire entitlement, although base revenue limits and the large adjustments (NSS and the base adjustment) are subject to the deficit factor.

districts prior to 2007–08 did not lose state aid because of the deficit factor, although, as described earlier, they did lose some categorical funding. Excess taxes in recession-induced basic aid districts totaled \$63 million in 2010–11, compared to excess taxes of \$523 million in more traditional basic aid districts. As the state restores the funding cuts through the LCFF, we would expect recession-induced basic aid districts to drop out of basic aid status, a topic explored further in the following section.

**FIGURE 7**  
**Recession-induced basic aid districts lost state aid**



NOTE: This figure is intended for illustrative purposes and assumes no change in property taxes per pupil since 2007.

# The Future of Basic Aid Districts

During the debates over the LCFF in policy committees and in the media, much of the discussion focused on the “losers” — districts with few disadvantaged students that would not gain much from the LCFF. As discussed above, coastal basic aid districts have more affluent residents and would likely not benefit from the new funding formula. Indeed, of the 124 districts with less than 20 percent of students on free or reduced-price lunch, more than a third are basic aid districts, and 56 percent of these districts are either basic aid districts or have parcel taxes or both.

In response to these concerns, the legislature recently adopted two changes that will benefit basic aid districts. The first was included in the state’s elimination of redevelopment agencies. In the interest of financing redevelopment projects, the agencies received most of the growth in property tax revenue from the project areas. And with the elimination of redevelopment agencies, there was some question as to how to allocate their property taxes; specifically, whether they would be allocated according to AB 8 or through a new formula.<sup>19</sup> The legislature ultimately passed ABX1 26, which dissolved redevelopment agencies and created a process to unwind their financial obligations and assets.<sup>20</sup> The property taxes previously allocated to redevelopment agencies have begun to be allocated through AB 8, which means that they are largely benefitting education, which receives the majority of property taxes. This also means that the state has saved money in revenue limit districts because these property taxes reduce the amount of revenue limit state aid. However, in basic aid districts these property taxes increase their excess taxes. Thus, in the short term, the end of redevelopment agencies has likely benefitted basic aid districts. In the longer term, the effect is more uncertain.<sup>21</sup>

A second policy likely to benefit basic aid districts relates to the transition to the LCFF and how districts are held harmless from changes in funding from the LCFF. If the LCFF entitlement were treated exactly as revenue limits, district property taxes would have counted against the total LCFF entitlement. Since categorical programs are folded into the LCFF entitlement, property taxes would then finance some of these categorical programs previously paid for by the state. Furthermore, since the overall entitlement is larger than current levels, some districts would have lost their basic aid status. However, for some districts—particularly those that do not serve many disadvantaged students—the LCFF entitlement was less than what those districts would have received under the prior system as the economy recovered and funding cuts were restored. These districts—that include many basic aid districts—were considered LCFF “losers.” Ultimately, all districts will be held harmless to their pre-recession funding levels.<sup>22</sup>

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<sup>19</sup> The initial redevelopment elimination bills (AB 101 and SB 77, 2011) would have allocated the redevelopment property taxes equally on a per pupil basis to all school districts in a county. In addition, the proposals would have treated the redevelopment property taxes as revenue on top of the Proposition 98 guarantee. By providing the revenues on top of Proposition 98, every district’s budget would increase. These proposals required two-thirds approval from the legislature because they would have changed the distribution and treatment of these property taxes. Ultimately, the legislature did not garner enough votes to meet the two-thirds threshold

<sup>20</sup> (Chapter 5, Statutes of 2011). ABX1 26 was challenged upon its passage. The state Supreme Court upheld the legislature’s ability to dissolve redevelopment agencies. See LAO (2012b) for history of redevelopment agencies and their dissolution.

<sup>21</sup> The unwinding of redevelopment agencies is complex, and how the dissolution of the agencies will affect K–12 revenues is uncertain. The taxes on the redevelopment agencies’ projects have offset the Proposition 98 guarantee, and the LAO (2012b) estimates that basic aid districts have received 10 percent of the statewide taxes. However, long term projections of the effects are difficult; interpretation of ABX1 26 as redevelopment agencies wind down is still under question, and several lawsuits are still pending (see LAO, 2013).

<sup>22</sup> Each district will receive the greater of the LCFF entitlement or the economic recovery target equal to its 2007–08 funding level inflated to 2020–21. Districts will be capped at the 90th percentile of economic recovery target funding, about \$14,500 per pupil.

Thus, basic aid districts will be guaranteed to receive as much total categorical aid as they received in 2012–13, even if their property taxes exceed the LCFF entitlement.<sup>23</sup>

Despite the larger LCFF entitlements, some districts will continue to be basic aid districts because their property taxes exceed their entitlement. In the future, basic aid districts may also have higher funding levels relative to revenue limit districts because of the additional property taxes they receive resulting from the termination of the redevelopment agencies. Specifically, the basic aid districts will be receiving the redevelopment agency revenues in addition to their current property taxes. In the revenue limit districts, these revenues will count against state aid from the LCFF. The hold harmless provisions mean that despite a shift in state aid toward districts serving many disadvantaged students, basic aid districts may continue to receive funding levels far above the Constitutional minimums.

## Modeling the LCFF and Basic Aid Status

As the state restores its prior funding cuts through the LCFF, we would expect recession-induced basic aid districts to drop out of basic aid status. Indeed, back-of-the envelope calculations suggest that the vast majority of recession-induced basic aid districts are likely to drop out of basic aid status upon full implementation of the LCFF.<sup>24</sup> In contrast, coastal, pre-recession basic aid districts will retain that status (Table 4).

**TABLE 4**  
**Most basic aid districts will retain their status after LCFF implementation**

	Basic aid districts 2010	Basic aid districts 2020	Change (%)
Pre-recession	93	87	-6
Recession-induced	32	11	-66
New basic aid	0	3	
Total	125	101	-19

SOURCES: Author’s projections based on information from the PPIC School Finance Model (2013), California Department of Finance (2012), Legislative Analyst’s Office (2012a, 2012c), and Local Control Funding Formula (Chapter 47, Statutes of 2013).

NOTES: See footnote 25 for model assumptions. The table offers estimated projections, not forecasts or predictions.

These changes vary by the geographic location of the basic aid districts. A larger percentage of coastal basic aid districts will drop out of basic aid status because the vast majority of recession-induced basic aid districts

<sup>23</sup> The LAO (2013) explicitly recommended that the legislature reject this aspect of the governor’s proposal since it would preserve the historical advantages of basic aid districts. See Department of Finance ([www.dof.ca.gov/reports\\_and\\_periodicals/district\\_estimate/view.php](http://www.dof.ca.gov/reports_and_periodicals/district_estimate/view.php)) projections of the likely effect of the formula on basic aid districts.

<sup>24</sup> To project basic aid status, I adjusted districts’ 2010–11 enrollment by their county’s projected percentage change using the Department of Finance 2012 projections for 2020–21 enrollment. I assumed a 1.94 percent annual increase in the LCFF base funding levels as a conservative estimate in the cost-of-living adjustments consistent with the average inflation assumptions in calculating the economic recovery target in the LCFF legislation. To calculate the supplemental and concentration grant, I took the average base rate in 2013–14 (\$7,360) and multiplied it by 0.2 and 0.5 to get a dollar amount per disadvantaged student (\$1,472 for the supplemental and \$3,680 for the concentration grant). That grant amount was then adjusted using the assumption of annual inflation of 1.94 percent. I made no adjustments to the proportion of students in various grade spans; 2010–11 proportions were multiplied by the estimated 2020 student enrollment for each district to estimate enrollments by grade span. I cannot make any adjustments for estimated changes in disadvantaged populations. To calculate the add-on (which retains two large categorical programs but makes the funds general purpose), I took the total 2010–11 revenue for each district for the Targeted Instructional Improvement Block Grant, Home-to-School transportation, and the Small District Bus Replacement programs, without any inflation adjustment. I then calculated a district’s total LCFF entitlement by summing each of these parts of the LCFF. To project property tax revenue, I increased 2010–11 local revenues annually by 6 percent, based on the Legislative Analyst’s Office November 2012 forecast through 2017–18. I then subtracted property taxes from the LCFF entitlement. I considered any district for which the outcome was negative to be a basic aid district. I did not make any assumptions or adjustments for NSS funding or the economic recovery target, which may affect basic aid status. The projections are consistent with those produced by other school finance experts in private conversations, although they should not be treated as a prediction.

are located in coastal counties (Table 5). Of course, this depends largely on the assumptions behind the projections. For example, of the 18 coastal districts that are expected to drop out of basic aid status under the LCFF, 12 are located in the San Francisco Bay Area, which has seen significant growth in its housing market. It may be that property taxes in the Bay Area will grow at an annual rate far above my statewide assumption. In contrast, the three districts that may enter basic aid status upon full implementation of the LCFF are located in inland counties. Property tax growth in these counties, however, may be far below forecasts, in which case these districts may not ultimately become basic aid districts.

**TABLE 5**  
**Coastal basic aid districts are more likely to lose basic aid status after LCFF implementation**

	Basic aid districts 2010	Basic aid districts 2020	Change (%)
Coastal	88	70	-20
Inland	37	31	-16
Total	125	101	-19

SOURCES: Author’s projections using PPIC School Finance Model (2013), California Department of Finance (2012), Legislative Analyst’s Office (2012a, 2012c), and Local Control Funding Formula (Chapter 47, Statutes of 2013)

NOTES: See footnote 25 for model assumptions. These are estimated projections and are not forecasts or predictions.

Since these simple projections suggest that the vast majority of districts that were basic aid districts prior to the Great Recession will continue to be so in the future, comparing revenue limit and recession-induced basic aid districts to pre-recession basic aid districts may provide insights into the characteristics of basic aid districts upon full implementation of the LCFF. The [technical appendix](#) provides such information and replicates many of the figures and tables in this report for pre-recession and recession-induced basic aid districts.

# Conclusion

To many Californians, basic aid districts appear inherently unfair. The *Serrano* case was sparked by the link between property wealth and per pupil funding, which led to the creation of revenue limits designed to neutralize differences in wealth and equalize per pupil funding across the state. Revenue limits were largely equalized within types of districts, with a few—typically very small—outliers. And for many reasons, some districts continue to receive much more property taxes per pupil than others do. These reasons include historical factors such as the allocation of property taxes across local governments, higher home values, and fewer students to educate. Although basic aid districts have several advantages, including a more educated population, fewer disadvantaged students, and higher total funding levels than revenue limit districts, basic aid districts do not comprise a homogenous group. Coastal basic aid districts have among the most affluent residents in the state. Inland basic aid districts are very small. And some districts have attained basic aid status only because of the budget cuts to revenue limits imposed following the Great Recession. Furthermore, basic aid districts may have higher costs as they compete in their local labor markets or because of diseconomies of scale.

The LCFF is explicitly designed to address some of the prior inequities in per pupil funding in California. It creates statewide base rates to replace revenues limits that, although largely equalized by district type and size, varied across the state for historical reasons. The LCFF addresses a second inequity by providing significantly more resources to disadvantaged students, reflecting the idea that some students may require more resources than others to meet the state standards. Under the LCFF, more-affluent districts will see less growth in state aid, and thus they have been generally regarded as “losers” under the new legislation. However, many of these losers are basic aid districts or districts with parcel taxes, which are characteristics typically associated with a winning situation; and the additional local revenue of these districts may help cushion their transition to a new, statewide funding formula that helps simplify, and hopefully improve, the school finance system in California.

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