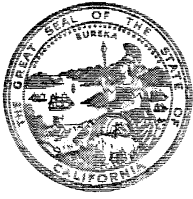


REPORT OF THE
OFFICE OF THE AUDITOR GENERAL

009

ANALYSIS OF THE STATE SCHOOL FUND SHORTFALL

MAY 1980



California Legislature

Joint Legislative Audit Committee

GOVERNMENT CODE SECTION 10500 et al

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May 14, 1980

009

The Honorable Speaker of the Assembly
 The Honorable President pro Tempore of the Senate
 The Honorable Members of the Senate and the
 Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits the Auditor General's report concerning the estimated \$162.2 million shortfall in the State School Fund resulting from school districts' mid-year claims for state aid.

The report indicates that local revenue adjustments and average daily attendance components of the shortfall will correct themselves when districts report actual figures for the entire year. These adjustments should reduce the shortfall to \$100.9 million. The report finds that the Department of Education needs to alter its procedures for assessing the total amount available to the State School Fund and correct its instructions to districts on deducting specified categorical program funds from their revenue limits. These actions should further reduce the shortfall to \$54.7 million. Furthermore, should the Legislature implement alternative funding of \$49.2 million in mandated costs, the shortfall could be reduced to \$5.5 million.

The auditors are Harold L. Turner, Audit Manager; Thomas A. Britting; Jacques M. Barber; Thomas R. Dovi; Stephen Lozano; Karen A. Nelson; Walter M. Reno; M. Osman Sanneh; and Allison G. Sprader.

Respectfully submitted,

S. FLOYD MORI
 Chairman, Joint Legislative
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SUMMARY

Proposition 13 added Article XIII A to the California Constitution limiting school districts' ability to levy property taxes to support public instruction. In 1979 the Legislature passed Assembly Bill 8 (Chapter 282 of the Statutes of 1979) and Senate Bill 186 (Chapter 1035 of the Statutes of 1979), collectively known herein as AB 8, which revised the method of financing public schools. Basically, AB 8 provides state aid to school districts to fund the difference between the districts' revenue limits and local revenues.

State aid is allocated to districts from the State School Fund. State aid claims at the 1979-80 first principal apportionment created a shortfall in the State School Fund because the amount claimed exceeded the amount available by approximately \$162.2 million. Since the State cannot disburse an amount greater than that in the fund, the Department of Education reduced each district's apportionment by 3.47 percent.

Five principal factors contributed to causing state aid claims in excess of available revenues.

- School districts' reported lower local revenues at the first principal apportionment than they will probably receive by year end. Based on more current data, we estimate that local revenues may increase by about \$26.8 million. Such an increase would reduce state aid claims by that amount;

- Most school districts failed to reduce their revenue limits for specified categorical programs as stipulated by AB 8. Proper reductions should decrease state aid claims by \$25.5 million;
- At the first principal apportionment, school districts reported about 21,570 more units of average daily attendance than estimated by the Department of Finance for AB 8. Historically, the final average daily attendance reported at the second principal apportionment is less than that initially reported. If it drops to the level anticipated by AB 8, state aid claims should decrease by approximately \$34.5 million;
- In computing the amount of revenue available for the State School Fund, the Department of Education did not include certain revenues. For 1979-80 these revenues could increase allocations to school districts by \$20.7 million;
- At the first principal apportionment, costs mandated by court order and federal regulation were \$49.2 million higher than anticipated by AB 8. Furthermore, these costs may increase by the end of the current school year. Consequently, state aid claims would increase.

Local revenue adjustments and average daily attendance components of the State School Fund shortfall will correct themselves when districts report actual figures for the entire year. These adjustments should reduce the shortfall to \$100.9 million. To address the other problems, we recommend the Department of Education alter its procedures for assessing the total amount available in the State School Fund and correct its instructions to districts on deducting specified categorical grant programs from their revenue limits. By implementing our recommendations, the shortfall would be

further reduced to \$54.7 million. We also provide matters for the Legislature to consider, including alternatives for funding mandated costs and a method to equalize the effect of the shortfall by proportionately reducing total school district revenues. Should the Legislature implement alternative funding of mandated costs, the shortfall would be reduced by an additional \$49.2 million to \$5.5 million.

INTRODUCTION

In response to a request of the Joint Legislative Audit Committee, we have reviewed the significant factors contributing to the projected shortfall in the State School Fund. This review was conducted under the authority vested in the Auditor General by Government Code Section 10500 et seq.

Public School Financing Under AB 8

Proposition 13 added Article XIII A to the California Constitution limiting school districts' ability to levy property taxes. In response to Proposition 13, the Legislature passed Assembly Bill 8 (Chapter 282 of the Statutes of 1979) and Senate Bill 186 (Chapter 1035 of the Statutes of 1979), which will be collectively referred to as AB 8 throughout this report. These measures provide specific levels of state aid for school districts.

In California a public school district's financial support is determined primarily by its average daily attendance (ADA). ADA is derived by dividing total pupil attendance days by the total number of authorized school days in the reporting period. The result represents the district's ADA.

The amount of funding available to districts for each unit of ADA is referred to as the revenue limit per unit of ADA. The revenue limit per ADA multiplied by a district's total ADA is referred to as the district's revenue limit, which includes both state aid and local revenue.

AB 8 required county superintendents of schools to make specific adjustments to their districts' 1978-79 revenue limits per ADA to produce a recalculated revenue limit per ADA. These recalculated revenue limits were increased by an average of 8.6 percent. The increased revenue limit per ADA was used to calculate districts' 1979-80 revenue limit. Additionally, AB 8 allowed districts to augment their base revenue limits by the cost of specific programs such as Meals for Needy Pupils and Development Centers for Handicapped Pupils. Districts could also include costs mandated by court orders, federal statutes or regulations, or statewide initiatives.

State aid is paid from the State School Fund. The amount of state aid allocated to the districts by the Superintendent of Public Instruction is basically the difference between local revenues and the districts' revenue limits.* The department, however, cannot allocate more state aid than is available in the State School Fund.

* Local revenues include secured and unsecured property taxes, state subventions for homeowners and business inventory tax exemptions, timber taxes, and other miscellaneous taxes and income.

School District
Apportionment Process

The apportionment process determines the amount of state aid that districts should receive. This process includes four basic elements: a monthly cash advance, first principal apportionment, second principal apportionment, and annual adjustment. Appendix A provides a flowchart of the apportionment process.

From July through January, districts receive a monthly cash advance, which covers working capital needs prior to computation in February of districts' revenue limits. The total amount advanced to districts equals approximately 58 percent of the previous year's state aid.

The first principal apportionment adjusts prior-year revenue limits and initially determines a school district's state aid requirement for the current year. The first principal apportionment, completed in February, is the basis for monthly state aid payments from February through May.

The second principal apportionment adjusts revenue limits and state aid entitlements based on data reported in May. The second principal apportionment is certified by the

Superintendent of Public Instruction for payment in June. The amount due a district is the difference between the current state aid entitlement and the amount a district has already received.

The final element in the apportionment process is the annual adjustment, which is based upon data submitted after the school year ends. This adjustment is made to the first principal apportionment for the next academic year.

Scope of Review

Our review focused on the principal factors causing district claims to exceed the amount available in the State School Fund and the extent to which these factors result from unanticipated effects of AB 8. We reviewed local revenues, specific categorical programs, average daily attendance apportionments, and claims against the State School Fund for mandated costs.

During our review we conducted interviews, analyzed program documents, and examined financial information and other data at the Department of Education, 7 County Offices of Education, and 17 school districts within these counties. We also interviewed county auditor-controllers and officials at the State Controller's Office, Legislative Analyst, and the Department of Finance.

AUDIT RESULTS

According to Department of Education estimates, at mid-year school districts' annual claims against the State School Fund exceeded the amount available by approximately \$162.2 million. Appendix B presents the computation of this shortfall. Since allocations cannot exceed funds available, the department reduced district claims by an average of 3.47 percent.

We estimate that this shortfall may be reduced by \$107.5 million to \$54.7 million by the end of the 1979-80 school year. This reduction is based upon these assumptions:

- Local revenues available to school districts will increase by at least \$26.8 million;
- School districts should reduce their total revenue limits for specified categorical programs by \$25.5 million as anticipated by AB 8;
- Average daily attendance should decrease at the second principal apportionment as it has historically over the last three years, thereby reducing state aid claims by \$34.5 million;

- The Department of Education should apportion to districts the additional \$20.7 million available to the State School Fund from miscellaneous revenue sources.

Furthermore, if the Legislature funded certain mandated costs through a separate fund or a specific appropriation, the estimated \$54.7 million shortfall could be reduced by an additional \$49.2 million to \$5.5 million.

This report analyzes how these factors contributed to the projected shortfall and compares these factors to the assumptions made about them at the time the school districts' appropriations were developed.

INCREASED LOCAL REVENUES WILL
REDUCE CLAIMS FOR STATE AID

In the 1979-80 first principal apportionment reports, county superintendents of schools may have projected less local revenues than they actually will receive. If local revenues should exceed first principal apportionment estimates, state aid claims will decrease accordingly. Based on local revenue data more current than that reported at the first principal apportionment, we estimate a potential \$26.8 million reduction in state aid claims.

Sections 42237 and 42238 of the Education Code require the Superintendent of Public Instruction to reduce a school district's total revenue limit by the amount of local property tax revenues and other revenues to be received. The remainder is the amount of state aid to be distributed from the State School Fund. Consequently, an accurate estimate of local revenues is important for determining the total amount of state aid needed from the State School Fund.

Two sources are available for estimating local revenue. One is the Report of Taxes and Tax Rates of School Districts (Form J-29B) submitted by the county superintendent of schools. This form, completed and certified by the county auditor, reports the estimated tax revenues to be allocated to each school district. The other source for estimating local

revenue is the first principal apportionment report (P-1 estimate) submitted by the county superintendent of schools each October.* For 1979-80 these estimates totalled \$1.585 billion.

First Principal
Apportionment
Estimates Inexact

Methods used by county superintendents for estimating local revenues varied among the counties we visited. In three of them, administrators used a property tax revenue figure either from the prior year or from an estimate by the county auditor for the current year. Then, to produce what they felt would be a reasonable estimate, they multiplied the figure by a factor ranging from 82.5 to 90 percent. One county derived its estimate by taking 20 percent of the recalculated 1978-79 revenue limit. Two other counties used property tax data from Form J-29B.

The accuracy of the P-1 estimates varied significantly. Some counties' P-1 estimates were close to the certified revenue amount on Form J-29B; others differed

* First Principal for Fiscal Year 1979-80 (Form K-12-1P) is used to determine a district's revenue limit for K-12 programs.

substantially. Table 1 shows the 1979-80 P-1 estimates and certified Form J-29B amounts for the counties we visited. Appendix C presents this information for all counties in the State.

TABLE 1
 COMPARISON OF P-1 AND FORM J-29B
 ESTIMATED LOCAL REVENUE
 FOR COUNTIES VISITED
FISCAL YEAR 1979-80

<u>County</u>	<u>P-1 Estimated Local Revenue</u>	<u>Form J-29B Estimated Local Revenue</u>	<u>Difference Form J-29B Over or(Under) P-1 Estimate</u>
Alameda	\$ 63,023,615	\$ 43,236,569	\$(19,787,046)
Los Angeles ^a	\$298,452,564	\$324,890,224	\$ 26,437,660
San Bernardino	\$ 49,313,829	\$ 49,985,163	\$ 671,334
San Diego	\$149,257,188	\$166,708,288	\$ 17,451,100
San Francisco	\$ 13,597,107	\$ 12,725,636	\$ (871,471)
San Joaquin	\$ 20,438,349	\$ 20,466,066	\$ 27,717
Santa Clara	\$105,575,980	\$118,008,135	\$ 12,432,155

^a Los Angeles County did not include local property tax revenues on its Form J-29B. We developed that figure from information provided by the Los Angeles county auditor.

We developed a new local revenue estimate for schools using the most current property tax data available. Based upon property tax revenues and business and inventory tax subventions from Form J-29B, timber tax and miscellaneous revenues from the P-1 estimates, we estimate that local revenues for K-12 schools for 1979-80 will be approximately \$1.612 billion rather than the \$1.585 billion reported on the P-1 estimates. The difference, \$26.8 million, reflects a

potential reduction in the State School Fund shortfall. Table 2 displays our recalculation of local revenues available to school districts.

TABLE 2
 RECALCULATION OF REVENUES
 AVAILABLE TO SCHOOL DISTRICTS
 FISCAL YEAR 1979-80
 (In Millions)

Property Tax Including Subventions (per Form J-29B)	\$1,590.3
Miscellaneous Revenue (per P-1 estimate)	9.5
Timber Tax (per P-1 estimate)	<u>12.1</u>
Recomputed Local Revenue	\$1,611.9
<u>Less: Local Revenue per P-1 Estimates</u>	<u>1,585.1</u>
Reduction in Claims Against the State School Fund	<u>\$ 26.8</u>

Appropriation to
the State School Fund

The 1979-80 appropriation to the State School Fund was based partially on the Department of Finance's local revenue estimate contained in AB 8. The AB 8 Conference Committee Report, "Long-term Local Government and School Financing," revised July 19, 1979, estimated \$1.913 billion in local revenues for education, \$1.571 billion of which would be available to school districts. The P-1 estimates submitted by

county superintendents of schools identified \$1.585 billion available. We estimate that \$1.612 billion will be available in local revenues. Table 3, which shows the various local revenue estimates, illustrates that the AB 8 estimate was actually conservative. A conservative local revenue estimate should have resulted in a surplus, not in a shortfall, in the State School Fund because more local revenue available would have reduced claims for state aid. Consequently, the local revenue estimate contained in the AB 8 Conference Committee Report did not contribute to the projected shortfall in the State School Fund.

TABLE 3

COMPARISON OF LOCAL REVENUE ESTIMATES
FISCAL YEAR 1979-80

<u>Time of Estimate</u>	<u>Source of Estimate</u>	<u>Estimate of Local Revenues</u>
July 19, 1979	AB 8 Conference Committee Report	\$1.571 billion
December 1979 - January 1980	P-1 Estimates from County Superintendents	\$1.585 billion
April 1980	AGO Estimate Based upon Form J-29B Information Available January 1980	\$1.612 billion

CONCLUSION

The Department of Education could use Form J-29B to determine more accurately local revenues available to school districts. Had Form J-29B information been

used at the first principal apportionment in 1979-80, the projected demand on the State School Fund would have been \$26.8 million less. Furthermore, we conclude that the excess demand on the State School Fund was not attributed to the AB 8 estimate.

RECOMMENDATION

The Department of Education should use Form J-29B property tax estimates in computing the first principal apportionment because it contains more current information.

REVENUE LIMITS WERE NOT
REDUCED APPROPRIATELY

Most school districts did not reduce their revenue limits for specified categorical programs to the extent required by AB 8. Consequently, those districts have claimed approximately \$25.5 million more in state aid than anticipated.

Prior to the 1978-79 school year, districts funded a portion of the Child Development, Development Centers for Handicapped Pupils (DCHP), and Meals for Needy Pupils programs through permissive overrides on property taxes. Proposition 13, however, eliminated districts' ability to assess permissive overrides. To compensate for these revenues lost in 1978-79, Senate Bill 154 (Chapter 292 of the Statutes of 1978) provided state aid in the form of block grants. For the 1979-80 school year, AB 8 required school districts to remove the block grants from their revenue limits.

School districts did not deduct sufficient block grant amounts from their revenue limits primarily because instructions for the Reduction of Specified Categorical Programs schedule are incorrect.* These instructions specify that districts deduct the "Amount Received...NOT to exceed

* From the Recalculation of the District's 1978-79 Revenue Limit/Block Grant for K-12 Programs to Be Used as a Base for the 1979-80 Revenue Limit.

amount transferred to" the appropriate program or fund (emphasis added). However, AB 8 requires districts to deduct the amount of revenue received in 1978-79 not to exceed the amounts expended for block grant programs.* Since the amounts expended by districts for these programs usually exceeded the block grants received, districts should have deducted the total block grants.

These incorrect instructions for deducting block grant amounts have had two effects. School districts have not correctly deducted the child development block grants from their revenue limits. In addition to child development block grants, districts did not properly deduct Meals for Needy Pupils and DCHP block grants which affected the inflation factor applied to their revenue limits.

Failure to Deduct Entire Child
Development Block Grant Amount
from District Revenue Limits

AB 8 required districts to eliminate from their revenue limits that portion of the Child Development program funded by the 1978-79 block grant. The Budget Act of 1979 funded the amount eliminated by a separate allocation of \$37 million in the general child development appropriation to continue block grant revenues provided by SB 154 in 1978-79. The department estimated that 1978-79 block grants amounted to

* See Appendix E for the Legislative Counsel's opinion on this issue.

\$32.8 million, but only \$10.2 million was deducted from the 1979-80 revenue limits. As a result, districts claimed \$22.6 million more in state aid than was anticipated.

Eight of the 17 districts we visited did not properly deduct their 1978-79 block grant amounts because of the incorrect instructions provided by the Department of Education. These districts deducted \$2.2 million from their revenue limits. The department, however, computed that they should have deducted an additional \$20.1 million, because they received block grants totalling \$22.3 million. Because these districts funded portions of their 1978-79 Child Development programs with carryovers from 1977-78 permissive override levies, they transferred to their programs the difference between the program fiscal needs and the carryovers. In many instances the amounts transferred were substantially less than the block grants districts received. Since each district expended more than the estimated block grant, the total block grant should have been deducted.

Effect on Inflation Adjustment

To adjust for inflation, school districts' revenue limits were increased by an average of 8.6 percent of the state weighted mean revenue limit per ADA for unified school districts with 1,501 or more ADA. However, school districts'

failure to deduct all appropriate block grant funds from their revenue limits artificially raised the state weighted mean revenue limit per ADA and increased the inflation adjustment accordingly.

The Department of Education estimated that an additional \$35.4 million should have been deducted from the 1979-80 revenue limits as Table 4 illustrates.

TABLE 4
 COMPARISON OF ESTIMATED
 DEDUCTIONS TO ACTUAL DEDUCTIONS
FOR ALL K-12 SCHOOL DISTRICTS

<u>Program</u>	<u>Estimated Deductions for 1979-80</u>	<u>Actual 1979-80 Deductions</u>	<u>Difference</u>
Child Development	\$32,829,710	\$10,155,515	\$22,674,195
Meals for Needy Pupils	21,955,051	13,421,657	8,533,394
DCHP	<u>6,501,830</u>	<u>2,329,425</u>	<u>4,172,405</u>
Total	<u>\$61,286,591</u>	<u>\$25,906,597</u>	<u>\$35,379,994</u>

Because districts did not deduct the \$35.4 million, the 1979-80 state weighted mean revenue limit per ADA for unified districts with 1,501 or more ADA is \$1,476. It would have been approximately \$1,463 if the proper amount had been deducted.

Reducing the state weighted mean revenue limit per ADA to its appropriate level by deducting the total block grant amount would reduce the inflation adjustment for 1979-80. Specifically, an 8.6 percent inflation adjustment to \$1,476 results in an average increase of \$127 per ADA, whereas the adjustment for the revised figure, \$1,463, would be \$126. When multiplied by the 4,041,822 ADA reported at the first principal apportionment, this \$1 difference in the inflation adjustment reduces state aid claims by \$4,041,822. This amount would be offset, however, by \$1,156,288 for adjustments to DCHP and Meals for Needy Pupils programs to account for changes in the number of pupils participating and to increase the grants by 7 percent for inflation. The net decrease in the inflation adjustment and, consequently, in state aid claims would be \$2,885,594.

CONCLUSION

Because districts did not fully deduct Child Development funds from their revenue limits, \$22.6 million in excess state aid claims resulted. Furthermore, failure to deduct the total block grants for Child Development, DCHP, and Meals for Needy Pupils artificially inflated the recalculated 1978-79 state weighted mean revenue limit per ADA and thus increased the inflation allowance for 1979-80. This

increase contributed approximately \$2.9 million to the excessive state aid claims. By not reducing revenue limits as required by AB 8, districts made excessive state aid claims totalling \$25.5 million. Districts did not deduct the full block grant amounts primarily because the first principal apportionment reporting document contained incorrect instructions.

RECOMMENDATION

We recommend that the Department of Education revise its 1979-80 second principal apportionment report instructions to be consistent with AB 8. The revision should require that 1978-79 block grant funds received in lieu of permissive override taxes not to exceed expenditures for Child Development, DCHP, and Meals for Needy Pupils be deducted from the 1978-79 recalculated revenue limit.

FIRST PRINCIPAL APPORTIONMENT
AVERAGE DAILY ATTENDANCE
PLACES ARTIFICIALLY HIGH
DEMAND ON STATE SCHOOL FUND

The demand on the State School Fund is artificially inflated by calculating it from first principal apportionment average daily attendance. The ADA reported by school districts for the first principal apportionment was 21,570 higher than estimated by the Department of Finance for AB 8. This ADA generated approximately \$34.5 million more in state aid claims than anticipated. Historically, ADA reported by school districts later in the year for the second principal apportionment is lower than that for the first. Such a decrease in ADA also reduces the amount of state aid school districts will receive.

A significant portion of a school district's state aid entitlement is based upon its ADA. In determining funding for AB 8, the Department of Finance estimated that districts would report 4,020,252 ADA units at the second principal apportionment. We have used the Department of Finance's estimate for our analysis.

The ADA reported at first principal apportionment in December is traditionally higher than that reported in April for the second principal apportionment. For example, students who graduate at mid-term and dropouts who attend school through

December are projected as full-term students on the December ADA submission. By April these mid-term graduates and dropouts are not counted as full-term students. The adjustment decreases the ADA count proportionally. Table 5 illustrates the historical decrease in ADA between the first principal apportionment and the second principal apportionment for the last three fiscal years.

TABLE 5

COMPARISON OF FIRST AND
SECOND APPORTIONMENT ADA
FISCAL YEARS 1976-77 TO 1978-79
(Rounded to Thousands)

<u>Fiscal Years</u>	<u>First Apportion- ment</u>	<u>Second Apportion- ment</u>	<u>Reduction In ADA</u>	<u>Percentage Decrease In ADA</u>
1976-77	4,513,000	4,479,000	34,000	.75
1977-78	4,429,000	4,400,000	29,000	.65
1978-79	<u>4,130,000</u>	<u>4,099,000</u>	<u>31,000</u>	<u>.75</u>
Total	<u>13,072,000</u>	<u>12,978,000</u>	<u>94,000</u>	<u>.72</u>

Currently, the revenue limit calculated for each district at the first principal apportionment is based on the ADA reported then. This method actually places an artificial demand on the State School Fund at the first of the year because by the second principal apportionment ADA usually declines.

For 1979-80 districts reported 4,041,822 units of ADA at the first principal apportionment. This amount exceeded Department of Finance estimates for AB 8 by 21,570 or .53 percent. Table 6 demonstrates that if ADA reported at the second principal apportionment drops to the level estimated by the Department of Finance for AB 8, the demand on the State School Fund will decrease by approximately \$34.5 million.

TABLE 6

DECREASED DEMAND ON STATE SCHOOL FUND
DUE TO REDUCTIONS IN ADA
FISCAL YEAR 1979-80

ADA Reported at First Principal Apportionment	4,041,822
<u>Less:</u> Department of Finance ADA Estimate for AB 8	<u>4,020,252</u>
Reduction in ADA	21,570
<u>Multiplied by:</u> Average State Weighted Mean Revenue Limit per ADA	<u>\$ 1,598</u>
Reduction in Demand on State School Fund	<u><u>\$34,468,860</u></u>

The Department of Finance AB 8 estimate is .53 percent smaller than the ADA reported at the first principal apportionment. As Table 5 illustrates, this reduction is less than the .72 percent average decrease that occurred in the last three fiscal years. Therefore, the potential reduction of approximately \$34.5 million may well be conservative.

CONCLUSION

Calculating state aid claims based on first principal apportionment ADA creates an artificially high demand on the State School Fund. Historically, ADA reported at the first principal apportionment is higher than that reported at the second. If statewide ADA at the second principal apportionment drops to the level anticipated by the Department of Finance, the demand on the State School Fund will be reduced by approximately \$34.5 million.

RECOMMENDATION

To create a more realistic ADA figure for the first principal apportionment, the Department of Education should factor each district's first principal apportionment ADA. This factor could be based upon the district's average reduction in ADA between the first and second principal apportionment in previous years.

DEPARTMENT OF EDUCATION
UNDERESTIMATED FUNDS
AVAILABLE FOR APPROPRIATION

In determining the funds available to the State School Fund, the Department of Education did not consider all potential revenue sources. The 1980-81 Governor's Budget shows an additional \$20.7 million in miscellaneous revenue available to the State School Fund for fiscal year 1979-80. The Department of Education did not include these funds, however, when computing the amount of state aid available for allocation to school districts. If the department had done so, an additional \$20.7 million could have been allocated at the first principal apportionment.

The State School Fund receives revenue from sources besides AB 8, the majority of which are oil and mineral revenues from federal lands. The Governor's Budget for 1980-81 shows these other revenue sources.

TABLE 7

ESTIMATED ADDITIONAL REVENUE AVAILABLE
TO THE STATE SCHOOL FUND
FISCAL YEAR 1979-80

Oil and Mineral Revenue from Federal Lands	\$19,165,000
Income from Surplus Money Investments	1,400,000
Other Interest Income	25,000
Interest on Loans to Local Agencies	15,000
Miscellaneous Income	<u>125,000</u>
Total	<u>\$20,730,000</u>

CONCLUSION

The department did not include an estimated \$20.7 million in other revenues when determining funds available to the State School Fund. Consequently, the State School Fund shortfall can be reduced by \$20.7 million.

RECOMMENDATION

The Department of Education should consider all revenue sources when determining funds available to the State School Fund.

REIMBURSEMENT CLAIMS FOR MANDATED
COSTS EXCEEDED DEPARTMENT OF
EDUCATION ESTIMATE FOR AB 8

School districts' claims at the first principal apportionment for costs mandated by court orders, federal statutes or regulations, or statewide initiatives exceeded amounts anticipated and created an additional state aid claim of approximately \$49.2 million. Furthermore, mandated cost claims may significantly increase in the future.

Mandated costs are those incurred by a local agency while complying with court orders, federal statutes or regulations, or statewide initiatives. Section 42243.6 of the Education Code permits the revenue limit of a school district to be increased by the amount necessary for mandated costs as long as the mandate was issued after January 1, 1978. Under the provisions of AB 8, mandated costs are added to the districts' revenue limits.

According to Department of Education officials, the AB 8 1979-80 estimate of mandated costs was \$91 million. This figure was derived from the 1978-79 desegregation program claims of \$81.5 million and was increased for inflation to \$91 million.

Mandated Cost Claims at
First Principal Apportionment

School districts claimed \$140.2 million in mandated costs at the first principal apportionment in fiscal year 1979-80. These claims exceeded the AB 8 estimate by \$49.2 million. Table 8 compares the mandated cost claims school districts submitted at the first principal apportionment with the estimate for AB 8.

TABLE 8

MANDATED COSTS CLAIMED BY DISTRICTS
FIRST PRINCIPAL APPORTIONMENT
FISCAL YEAR 1979-80
(In Millions)

<u>District Name</u>	<u>Amount</u>
Los Angeles Unified	\$121.0
San Diego City Unified	15.3
San Bernardino City Unified	2.5
Stockton City Unified	.3
37 Other Districts	<u>1.1</u>
Total Claimed	\$140.2
<u>Less: AB 8 Estimate</u>	<u>91.0</u>
Claims Higher than AB 8 Estimate	<u>\$ 49.2</u>

Costs of existing court-ordered desegregation programs constitute the majority of mandated cost claims. Table 9 shows that some of those programs in 1979-80 have expanded significantly over 1978-79 levels.

TABLE 9

COMPARISON OF COURT-ORDERED
DESEGREGATION PROGRAM COSTS BETWEEN
FISCAL YEARS 1978-79 AND 1979-80
FOR THREE SCHOOL DISTRICTS
(In Millions)

<u>District</u>	<u>1978-79 Costs Claimed</u>	<u>1979-80 Costs Claimed</u>	<u>Increase in Costs Claimed</u>
Los Angeles Unified	\$71.7	\$120.3	\$48.6
San Bernardino City Unified	1.5	2.5	1.0
San Diego City Unified	<u>7.9</u>	<u>15.7</u>	<u>7.8</u>
Total	<u>\$81.1</u>	<u>\$138.5</u>	<u>\$57.4</u>

Los Angeles Unified School District's claim alone increased by \$48.6 million. Approximately \$28.5 million of this increase was produced by an August 1979 court-ordered expansion of the Los Angeles program.

Several districts included claims for new mandated costs. For example, under the mandate of Public Law 95-555, Los Angeles and San Diego Counties extended certain maternity benefits to their employees and claimed \$1,280,000 for these mandated costs.

Several districts claimed mandated costs for the first time in 1979-80. During fiscal year 1978-79, only four districts had submitted such claims. At the 1979-80 first principal apportionment, 37 other districts submitted them, claiming approximately \$1.1 million.

Future Mandated Cost
Claims May Increase

The amounts claimed by school districts for Public Law 95-555 mandated costs may increase significantly in the future. According to officials in Los Angeles and San Diego Counties, the first principal apportionment did not include all the mandated cost claims for maternity benefits related to Public Law 95-555. Los Angeles County administrators estimate that their districts will claim an additional \$938,000 at the second principal apportionment. San Diego County administrators estimated their county's claim of \$280,000 would more than double by the second principal apportionment.

Claims for court-ordered desegregation may also increase. For instance, Stockton City Unified School District claimed approximately \$300,000 at the first principal apportionment. However, their transportation program, budgeted at \$1.4 million for 1979-80, is approximately 90 percent court mandated. Stockton City Unified officials report they may increase their mandated cost claims significantly at the second principal apportionment.

San Francisco Unified School District claims could also increase mandated costs. It operates a desegregation program based upon the same law as Los Angeles Unified School District's program. The district's legal counsel recommended submitting a claim for mandated costs, but the district has not yet done so.

Lack of Required Audits of
Districts' Mandated Cost Claims

School districts' claims for mandated costs are not audited as a precondition for payment nor are they required to be audited after payment is made. As a result there is no assurance that payments are made for appropriate and justified costs.

According to the Legislative Counsel's interpretation of AB 8 (Appendix F), the Department of Education does not have the authority to disallow any mandated cost claims. Furthermore, based upon Section 14041 of the Education Code, the Controller does not audit these costs as a precondition for payment. Therefore, no mechanism exists to reject unwarranted claims prior to payment.

The Controller may audit the appropriateness of mandated cost claims at his discretion. He may disallow claims if the costs:

- Exceed an amount necessary to meet costs mandated by the courts, initiatives, or the Federal Government;
- Result from litigation entered into by a district in order to avoid its revenue limit;

- Stem from a school district's erroneous belief that costs were mandated by the courts, initiatives, or the Federal Government.

The Controller must notify a district's governing board of any disallowed mandated costs. The district must then reduce its revenue limit accordingly for the next fiscal year.

The department forwarded the Controller information on the \$140.2 million districts claimed at the first principal apportionment. According to an official at the Office of the State Controller, the Controller has not audited any of these costs.

CONCLUSION

Mandated costs are funded through school district revenue limits. Claims exceeding the amount anticipated in AB 8 affect the amount of funds available to all school districts.

At the first principal apportionment, the Department of Education adjusted school district revenue limits by an estimated \$49.2 million to absorb the excess demand on the State School Fund. This demand may increase as more claims are submitted.

Furthermore, mandated cost claims do not have to be audited either as a precondition for payment or after payment has been made. As a result, there is no assurance that mandated costs claimed by districts are appropriate or justified.

RECOMMENDATION

The Legislature may wish to consider alternative procedures for funding and reviewing mandated costs. Such alternatives could include

1. Funding mandated costs through a separate fund by extracting the current year's estimated funding requirements from the State School Fund and augmenting it with additional funds from the General Fund. If separate funding is provided, the State Controller should be authorized to audit claims prior to payment.
2. Limiting the amount of the State School Fund which may be used for mandated costs by establishing a specific appropriation to the State School Fund for those costs. If a specific appropriation is established in the State School Fund, the Department of Education,

as the certifying agency, should be given authority to review and to disallow unwarranted claims prior to submitting the apportionment to the State Controller.

SUMMARY OF POTENTIAL
REDUCTIONS IN STATE AID CLAIMS

At least four major independent factors significantly affect the amount of state aid claims school districts will submit under the provisions of AB 8. Based on specific assumptions, Table 10 summarizes the potential reductions to the projected State School Fund shortfall.

TABLE 10

RECONCILIATION OF POTENTIAL ADJUSTMENTS
TO THE FISCAL YEAR 1979-80
FIRST PRINCIPAL APPORTIONMENT
STATE AID CLAIMS
(In Millions)

Department of Education's Estimate of Potential State School Fund Shortfall	\$162.2
Assumption 1: Property taxes will increase to the levels reported on Form J-29B (page 10)	<u>(26.8)</u>
	135.4
Assumption 2: Reduction in district revenue limits for specified categorical programs (page 16)	<u>(25.5)</u>
	109.9
Assumption 3: ADA at the second principal apportionment will drop by 21,570 (page 22)	<u>(34.5)</u>
	75.4
Assumption 4: Department of Education did not consider miscellaneous funds available to the State School Fund (page 26)	<u>(20.7)</u>
Potential Shortfall for 1979-80	<u>\$ 54.7</u>

If any of these reductions materialize, the potential shortfall will be reduced accordingly. The shortfall could be further reduced if the Legislature funded programs mandated by court orders, federal statutes or regulations, or statewide initiatives through a special fund or specific appropriation within the State School Fund. Either action would reduce the shortfall by \$49.2 million to \$5.5 million.

MATTERS FOR CONSIDERATION
BY THE LEGISLATURE

SCHOOL DISTRICTS' TOTAL REVENUES
WERE REDUCED DISPROPORTIONATELY

To reduce state aid claims at the first principal apportionment by \$162.2 million, the Department of Education uniformly applied a 3.47 percent reduction factor to state aid allocations to affected school districts.* This method disproportionately reduced school districts' total revenues because some districts derive a larger portion of their revenues from state aid than other districts. Those deriving the greater portion of their total budget from state aid received a greater reduction in their total revenues.

Section 41970 of the Education Code restricts state aid apportionments to the amount of funds available in the State School Fund. In the event that state aid claims are greater than funds available, Section 41971 of the Education Code requires a proportionate reduction in state aid claims. Consistent with provisions of the Education Code, the Department of Education uniformly reduced school districts' state aid claims by 3.47 percent.

* The reduction factor did not affect 106 districts because AB 8 provisions guarantee districts at least 102 percent of their recalculated 1978-79 revenue limits.

We have developed an example to illustrate the effect this reduction method has on two hypothetical school districts. The example assumes these districts' state aid claims total \$1,000,000 with a State School Fund balance of \$900,000. Because of the \$100,000 shortfall in the State School Fund, districts' state aid claims must be reduced 10 percent in accordance with provisions of the Education Code.

TABLE 11

APPLICATION OF THE REDUCTION FACTOR
TO TWO HYPOTHETICAL SCHOOL DISTRICTS

	<u>District A</u>	<u>District B</u>	<u>Total</u>
<u>Composition of Revenue Limits</u>			
Local Revenues	\$ 200,000	\$ 800,000	\$1,000,000
State Aid Claim at First Principal Apportionment	<u>800,000</u>	<u>200,000</u>	<u>1,000,000</u>
Total Revenue Limits	<u>\$1,000,000</u>	<u>\$1,000,000</u>	<u>\$2,000,000</u>
 <u>Application of Reduction Factor</u>			
Local Revenues	\$ 200,000	\$ 800,000	\$1,000,000
State Aid Reduced by 10 Percent	<u>720,000</u>	<u>180,000</u>	<u>900,000</u>
Total Revenues Avail- able to Districts	<u>\$ 920,000</u>	<u>\$ 980,000</u>	<u>\$1,900,000</u>

Though each district's state aid was proportionately reduced in this illustration, the effect is disproportionate to the district's total budget due to the varying proportion of state to local revenues received. District A's total revenues were reduced the most because it was the most reliant on state aid.

We analyzed the effect of the reduction factor on each of the 58 counties and found disproportionate reductions in total revenues. For example, San Francisco schools receive 87.1 percent of their revenues from state aid. After applying the 3.47 percent reduction factor to the state aid portion, San Francisco's total revenues dropped by 2.81 percent. In contrast, San Mateo County schools received only 56.2 percent of their revenues from state aid. After applying the reduction factor to their amount of state aid, San Mateo County schools' total revenues decreased by only 1.46 percent, 1.35 percentage points less than did San Francisco schools. Appendix D shows the percent reduction in total revenue for all counties.

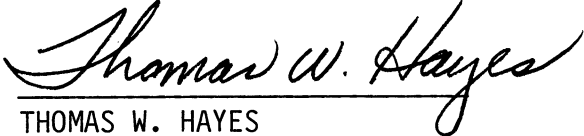
CONCLUSION

The proportionate reduction in state aid required when claims exceed funding available in the State School Fund results in disproportionate reductions in total funding available to school districts.

RECOMMENDATION

To equalize the effect of a shortfall in the State School Fund, the Legislature may wish to consider legislation requiring proportionate adjustments to a school district's total revenues rather than to only the state aid portion.

Respectfully submitted,


THOMAS W. HAYES
Auditor General

Date: May 9, 1980

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STATE OF CALIFORNIA
DEPARTMENT OF EDUCATION

STATE EDUCATION BUILDING, 721 CAPITOL MALL, SACRAMENTO 95814

May 8, 1980

Mr. Thomas Hayes
Auditor General
California Legislature
925 "L" Street, Suite 750
Sacramento, CA 95814

Dear Mr. Hayes:

The State Department of Education has reviewed the draft report, "Analysis of the State School Fund Shortfall," dated May 1980.

The report, in general, reflects a very thorough examination of the events and circumstances that affected the first principal apportionment for 1979-80. With respect to the report, the following recommendations and advice are made:

- * ● On page 10, line 2, we recommend that the reference to "school districts" should be stricken and the more accurate reference to "county superintendents" be substituted.
- The recommendation on page 15 is one to which the State Department of Education agrees; however, current law provides that the county superintendent shall report the taxes for revenue limit purposes. We agree that we should be authorized to receive the data via the J-29-B and it should be compiled by the County Auditor. Proposed legislation is under consideration in the Assembly to implement this recommendation (AB 2196/Greene).
- We do not agree with the conclusion and recommendation as stated on pages 20 and 21. The conclusion states that districts did not deduct the full block grants primarily because the first principal apportionment reporting document contained erroneous instructions. Our analysis of the situation is that:

E.C. 42237(a)(2)(A) of SB 186 (Chapter 1035, 1979) provided that the amount expended in 1978-79 for Child Development, Development Centers for Handicapped Pupils, and Meals for Needy Pupils from funds provided pursuant to Chapter 292/78

* Auditor General's Comment: Report changed to reflect the Department of Education's recommendation.

(SB 154), Chapter 332/78 (SB 2212) and Chapter 119/78 (SB 445) would be reduced from the revenue limit of the district.

During the development of the 1979-80 school district revenue Form K-12, the original draft used the term "expended" from Child Development, Development Center for Handicapped Pupils or Meals for Needy Pupils Fund(s). In the review of the form, it was determined that "expended" was limited by the phrase "from funds provided pursuant to Chapter 292/78, Chapter 332/78, and Chapter 119/79." With the limiting language and since these funds first went to the general fund, the funds would have to be transferred to the Child Development Fund, the Development Center for Handicapped Pupils Fund, or the Cafeteria Fund/Account in order to be expended. Thus, if the funds were not transferred, they could not have been expended for the three designated purposes. Because of this rationale, it was elected to use the term "transferred" believing it would represent a greater amount than "expended," given the limitation stated in SB 186. Concurrently we disagree that the law allows us to change the instructions to "not exceed expenditures for child development, Development Center for Handicapped Pupils, and Meals for Needy."

- * Therefore, we disagree that the instructions were erroneous. However, we agree with the thrust of the recommendation ... all of the money should have been removed from the base.

Corrective legislation is required to provide for removal of the total amount added to the revenue limit for the three purposes. As previously noted, action is pending on AB 2196 (Greene), and it includes the recommended change.

- ** ● On page 24, table 6, we recommend that you change the amount of \$1,211, State Aid Contribution per ADA, to \$1,598, and title it "Average Statewide Base Revenue Limit per ADA," change \$26,121,270 to \$34,468,860, and delete the footnote. The state actually saves the full revenue limit per ADA amount for each ADA reduced.
- On page 25, the Department does not agree with the recommendation to factor the P-1 ADA. The statutory provision for the three principal apportionments (advance, P-1, and P-2) and for monthly cash flow are such that districts, on the average, get just enough state money to meet monthly expenditures. If for some reason such as the late passage of a school finance bill, the advance apportionment is under-funded, many districts have to borrow through the first half of the fiscal year (advance apportionment) but are able to catch up at P-1 (middle of the fiscal year adjustment). We fear that adjusting P-1 as recommended would force some districts to borrow and pay interest for 11 months instead of six months. The Department feels it is appropriate to fund the school district

* Auditor General's Comment: The instructions developed by the Department of Education do not conform to the language in AB 8. See pages 16 and 17 and Appendix E.

** Auditor General's Comment: Report changed to reflect the Department of Education's recommendation.

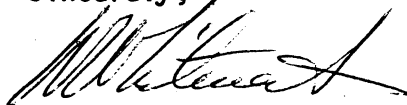
May 8, 1980

on the ADA generated by the school district at P-1 and allow extra money to flow in the middle of the fiscal year when it is needed, rather than in the last month of the year (P-2 time) when there is only one pay period left.

- On page 27, the Department agrees with this recommendation; however, this amount in previous years has always been included in the statutory appropriation by the State Controller. Furthermore, the actual amount is not known by the State Controller until the end of the fiscal year and it is doubtful if he would agree to include it in the appropriations at first principal apportionment time. Consequently, we would need to have a written affirmation from the State Controller that the amount is in addition to the budget appropriation for 1979-80 and that it is available for consideration at first principal apportionment time.
- * ● On page 29, table 8, in regard to the title, "Department of Education's AB 8 Estimate," the Department of Education did not make this estimate. It was made by the staff to the AB 8 Conference Committee.

In summary, we agree in general with the Auditor General's findings on the reasons for the shortfall and support the recommendations with the exception of the one about factoring first principal ADA.

Sincerely,

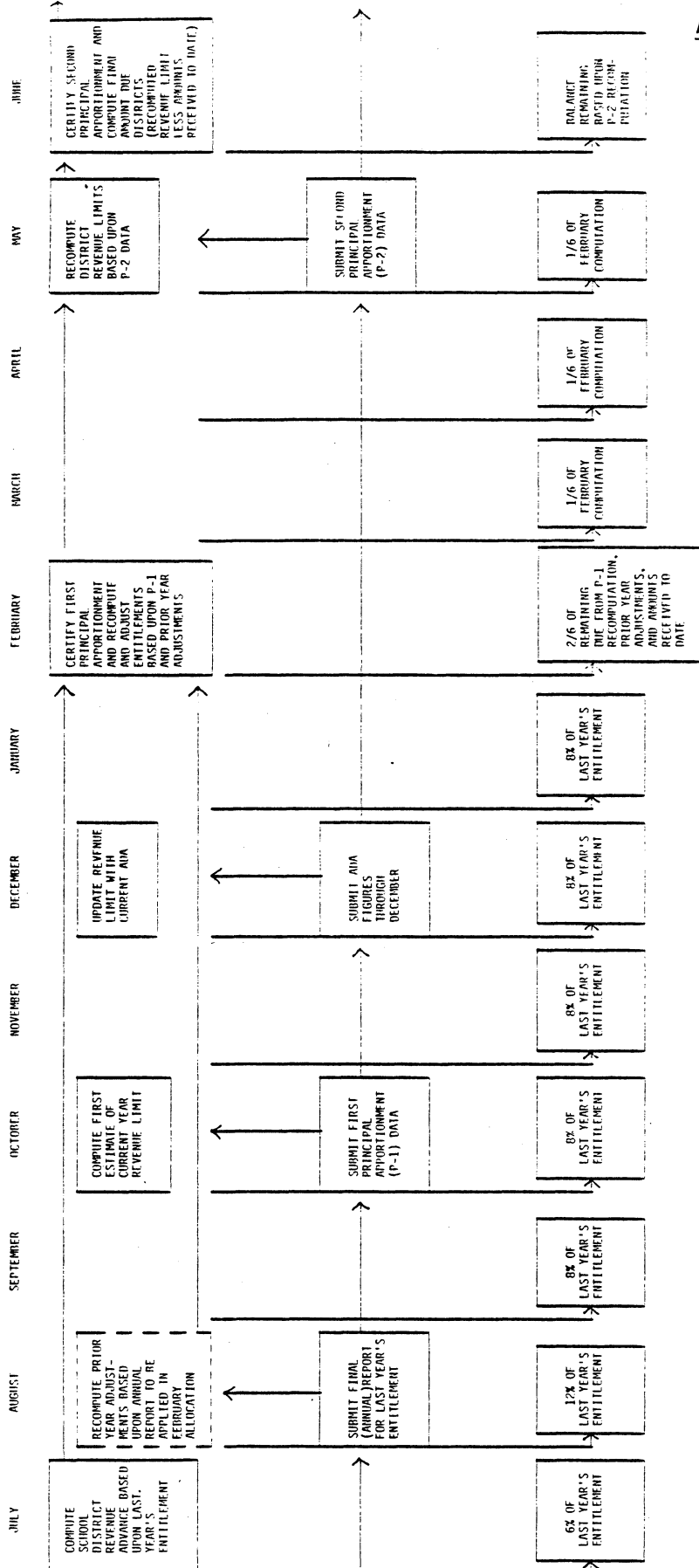


William D. Whiteneck
Deputy Superintendent for Administration
(916) 445-8950

WDW:jrr

* Auditor General's Comment: Report changed to reflect the Department of Education's recommendation.

FLOWCHART OF THE APPROPRIATION PROCESS



DEPARTMENT OF EDUCATION

A-1

COUNTY SUPERINTENDENTS OF SCHOOLS

PAYMENT RECEIVED BY SCHOOL DISTRICT

COMPUTATION OF 1979-80
FIRST PRINCIPAL APPORTIONMENT ADJUSTMENT

Total state aid claimed		\$5,434,671,286
<u>Less:</u> Adjustment of Aid to One District		706,371
Net State Aid Claimed		\$ 5,433,964,915
State Aid Appropriation (SB 186)		\$5,244,700,000
<u>Less:</u> Apportionments for State Schools Transportation	\$ 384,385	
Adults in Correctional Facilities	853,166	1,237,551
Balance Available		5,243,462,449
<u>Add:</u> Small District Excess Transportation Apportionment	\$14,510,494	
Junior High State Teachers Retirement System Adjustment	1,200,000	
Transfers for County Offices of Education	6,999,272	
Prior Year Adjustments	5,573,853	28,283,619
Total Available in State School Fund for K-12 Districts State Aid		\$(5,271,746,068)
Claims in Excess of State School Fund		\$ 162,218,847

COMPARISON OF P-1 AND FORM J-29B
LOCAL REVENUE ESTIMATES
FISCAL YEAR 1979-80

<u>County</u>	<u>P-1 Estimated*</u> <u>Local Revenue</u>	<u>Form J-29B</u> <u>Estimated*</u> <u>Local Revenue</u>	<u>Difference</u> <u>Form J-29B</u> <u>Over or (Under)</u> <u>P-1 Estimate</u>
ALAMEDA	\$ 63,023,615	\$ 43,236,569	\$(19,787,046)
ALPINE	153,000	141,000	(12,000)
AMADOR	2,389,973	2,608,016	218,043
BUTTE	12,327,994	13,055,348	727,354
CALAVERAS	2,842,237	2,977,719	135,482
COLUSA	2,451,275	2,181,488	(269,787)
CONTRA COSTA	48,656,882	49,969,107	1,312,225
DEL NORTE	3,527,580	3,514,480	(13,100)
EL DORADO	7,505,858	7,726,950	221,092
FRESNO	37,639,547	37,477,272	(162,275)
GLENN	2,862,085	2,536,646	(325,439)
HUMBOLDT	12,377,622	10,832,361	(1,545,261)
IMPERIAL	6,656,627	6,325,041	(331,586)
INYO	2,870,094	2,722,434	(147,660)
KERN	52,792,866	50,393,199	(2,399,667)
KINGS	4,021,795	4,126,191	104,396
LAKE	2,681,481	3,538,817	857,336
LASSEN	2,148,996	1,633,669	(515,327)
LOS ANGELES	298,452,564	324,890,224	26,437,660
MADERA	7,019,321	7,019,322	1
MARIN	21,171,201	21,591,140	419,939
MARIPOSA	1,787,849	1,824,765	36,916
MENDOCINO	7,707,823	7,584,556	(123,267)
MERCED	6,970,483	6,146,297	(824,186)
MODOC	1,427,777	1,413,705	(14,072)
MONO	1,533,539	523,419	(1,010,120)
MONTEREY	25,827,061	25,256,093	(570,968)
NAPA	9,406,901	9,390,882	(16,019)
NEVADA	4,434,690	4,347,928	(86,762)
ORANGE	216,835,598	215,490,632	(1,344,966)
PLACER	9,837,088	11,784,685	1,947,597
PLUMAS	4,518,608	4,217,641	(300,967)
RIVERSIDE	49,416,004	49,249,140	(166,864)
SACRAMENTO	35,659,625	33,217,054	(2,442,571)
SAN BENITO	2,316,271	3,142,215	825,944
SAN BERNARDINO	49,313,829	49,985,163	671,334
SAN DIEGO	149,257,188	166,708,288	17,451,100
SAN FRANCISCO	13,597,107	12,725,636	(871,471)
SAN JOAQUIN	20,438,349	20,466,066	27,717
SAN LUIS OBISPO	17,097,393	16,843,056	(254,337)
SAN MATEO	71,520,724	70,774,371	(746,353)
SANTA BARBARA	26,363,212	26,729,679	366,467
SANTA CLARA	105,575,980	118,008,135	12,432,155
SANTA CRUZ	16,656,495	14,575,795	(2,080,700)
SHASTA	10,338,500	12,665,670	2,327,170
SIERRA	448,782	430,893	(17,889)
SISKIYOU	5,178,356	4,245,463	(932,893)
SOLANO	10,075,819	10,762,186	686,367
SONOMA	28,484,167	18,680,699	(9,803,468)
STANISLAUS	17,607,156	26,698,901	9,091,745
SUTTER	5,316,599	5,460,543	143,944
TEHAMA	3,142,713	3,142,713	0
TRINITY	1,737,001	1,723,815	(13,186)
TULARE	14,061,049	12,025,798	(2,035,251)
TUOLUMNE	3,253,849	3,773,783	519,934
VENTURA	33,344,480	33,143,085	(201,395)
YOLO	8,598,286	7,661,892	(936,394)
YUBA	2,400,821	2,535,272	134,451
TOTAL	\$ 1,585,059,785	\$ 1,611,852,907	\$ 26,793,122

* Miscellaneous revenue and timber taxes are included in both the P-1 and Form J-29B local revenue estimates.

ANALYSIS OF REVENUE LIMIT
REDUCTIONS BY COUNTY
FISCAL YEAR 1979-80

<u>County *</u>	Percent of State Aid in Revenue <u>Limit</u>	First Principal Apportionment Reported <u>Revenue Limit</u>	<u>Revenue Limit After Reduction</u>	<u>Percent Reduction</u>
SAN FRANCISCO	87.08	\$ 108,266,672	\$ 105,220,515	2.81
LOS ANGELES	86.43	2,258,988,044	2,199,502,450	2.63
SOLANO	84.80	68,083,678	66,299,226	2.62
SACRAMENTO	84.13	230,725,908	224,734,904	2.60
YUBA	83.96	15,372,976	14,971,844	2.61
MERCED	83.74	44,001,697	42,861,106	2.59
KINGS	82.65	23,747,452	23,182,743	2.38
TULARE	82.49	82,380,088	80,320,099	2.50
SAN BERNARDINO	81.18	268,800,242	262,006,682	2.53
IMPERIAL	80.17	34,360,036	33,560,252	2.33
ALAMEDA	80.06	323,101,965	316,030,766	2.19
VENTURA	79.60	167,529,529	163,447,267	2.44
SAN JOAQUIN	79.42	101,791,575	99,316,708	2.43
STANISLAUS	77.45	79,994,650	78,086,054	2.39
FRESNO	76.70	165,353,885	161,545,532	2.30
CONTRA COSTA	76.02	207,702,186	202,878,045	2.32
SANTA CLARA	74.81	428,098,064	419,200,640	2.08
PLACER	74.71	39,783,329	38,902,704	2.21
RIVERSIDE	73.36	189,754,512	185,463,169	2.26
TEHAMA	71.65	11,303,669	11,085,197	1.93
SHASTA	70.55	35,856,235	35,099,633	2.11
SAN DIEGO	70.53	517,734,814	506,536,961	2.16
LAKE	70.49	9,285,406	9,085,465	2.15
SAN BENITO	69.86	7,850,327	7,685,761	2.10
YOLO	69.58	28,882,754	28,265,938	2.14
EL DORADO	69.33	24,983,569	24,471,921	2.05
MONTEREY	69.28	85,757,241	84,065,223	1.97
LASSEN	68.23	6,903,550	6,764,465	2.01
SANTA BARBARA	67.35	82,432,412	80,735,757	2.06
SUTTER	67.14	16,516,431	16,178,241	2.05
MADERA	66.10	21,111,940	20,702,918	1.94
SONOMA	65.76	84,845,574	83,179,732	1.96
MENDOCINO	65.36	22,679,801	22,253,444	1.88
BUTTE	64.50	35,413,526	34,727,338	1.94
TUOLUMNE	64.36	9,288,763	9,130,900	1.70
MARIN	64.29	60,433,419	59,287,087	1.90
SANTA CRUZ	64.16	47,384,606	46,472,891	1.92
SIERRA	64.08	1,249,492	1,249,492	0.00
NAFPA	63.42	26,209,736	25,717,818	1.88
ORANGE	62.55	590,356,503	579,066,728	1.91
GLENN	62.20	7,717,121	7,571,990	1.88
KERN	61.79	140,715,450	138,173,613	1.81
NEVADA	61.44	11,709,061	11,502,068	1.77
HUMBOLDT	60.53	31,903,766	31,359,558	1.71
CALAVERAS	59.40	7,123,405	6,999,854	1.73
SISKIYOU	57.30	12,330,167	12,125,999	1.66
SAN MATEO	56.19	165,661,178	163,244,195	1.46
AMADOR	55.76	5,487,838	5,402,559	1.55
MODOC	54.90	3,189,834	3,165,926	0.75
INYO	54.27	6,369,278	6,276,626	1.45
SAN LUIS OBISPO	53.01	36,966,430	36,387,362	1.57
TRINITY	52.40	3,694,039	3,649,010	1.22
ALPINE	49.65	303,866	303,866	0.00
MARIPOSA	47.65	3,453,428	3,415,403	1.10
HONO	47.35	2,949,735	2,912,442	1.26
COLUSA	42.69	4,323,490	4,277,284	1.07
DEL NORTE	31.61	5,202,288	5,158,294	0.85
PLUMAS	19.11	5,609,174	5,566,187	0.41
TOTAL	76.88	\$7,019,024,700	\$6,856,805,852	2.31
	=====	=====	=====	=====

* Counties were ordered according to percent of state aid.

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Legislative Counsel of California

BION M. GREGORY

Sacramento, California

May 5, 1980

Mr. Thomas W. Hayes
Auditor General
925 L Street, Suite 750
Sacramento, CA 95814

Child Development - #7054

Dear Mr. Hayes:

QUESTION NO. 1

What constitutes "amounts which the district received, but not to exceed the amount expended in the 1978-79 fiscal year, for purposes of child development," as that phrase is used in Section 42237 of the Education Code?

OPINION NO. 1

The phrase means the total amount the district received for purposes of child development programs pursuant to Chapters 292 and 332 of the Statutes of 1978 and Chapter 119 of the Statutes of 1979; however, in the event the district, in fact, did not expend that total amount, the phrase means that amount thereof actually expended for child development programs.

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ANALYSIS NO. 1

Chapters 292 and 332 of the Statutes of 1978 provided state financing for education in the 1978-79 fiscal year. Section 4 of Chapter 292 of the Statutes of 1978 provided that the state aid provided pursuant to Section 2 of Chapter 292 of the Statutes of 1978 could be used for any purpose determined by the governing board of a recipient school district.

Section 6.5 of Chapter 332 of the Statutes of 1978 relates specifically to child development programs and reads, in pertinent part, as follows:

"SEC. 6.5. Notwithstanding any other provision of law, if a school district or community college district levied and used revenue from a child development permissive tax during 1977-78, then such district shall make available to its child development program for the 1978-79 fiscal year an amount of revenue which is equal to the same percentage of its 1977-78 funding level that the total funding level of the district in 1978-79 bears to the district's 1977-78 total funding level. With such funds, each such district shall maintain at least the proportionate level of service for child development programs as the total percentage the district's 1978-79 funding level bears to its 1977-78 funding level. . . .

* * *

Thus, a school district which levied and used revenue from a child development permissive tax (see Secs. 8329 and 8330, Ed. C.) during the 1977-78 fiscal year was required to make available to its child development program for the 1978-79 fiscal year an amount of revenue proportionate to the 1977-78 fiscal year level and was required to maintain at least the proportionate level of service.

For the 1978-79 fiscal year, Section 42237 of the Education Code requires the county superintendent of schools for each school district in his or her county to recalculate the 1978-79 funding level pursuant to Section 2 of Chapter 292 of the Statutes of 1978, as amended by Chapter 332 of the Statutes of 1978 and Chapter 119 of the Statutes of 1979, according to a prescribed formula, which includes a deduction, as follows:

"42237. (a) * * *

"(2) Deduct the following from the amount determined in paragraph (1):

"(A) The amounts which the district received, but not to exceed the amount expended in the 1978-79 fiscal year, for purposes of child development, developmental centers for handicapped pupils, and meals for needy pupils programs from funds provided pursuant to Chapter 292 of the Statutes of 1978, as amended by Chapter 332 of the Statutes of 1978, and Chapter 119 of the Statutes of 1979.

* * *" (Emphasis added.)

The deduction to be made is the amount the school district received under Chapters 292 and 332 of the Statutes of 1978 and Chapter 119 of the Statutes of 1979 for the designated purposes, but not more than the amount actually expended, in the 1978-79 fiscal year. While Section 6.5 of Chapter 332 of the Statutes of 1978 required a school district to make available a certain amount of revenue for child development programs and required the school district to maintain a proportionate level of service, it is recognized in Section 42237 of the Education Code that the school district might not have expended the amount available in order to maintain the level of service. Thus, the deduction involves the amount expended if it was less than the amount received.

Therefore, we conclude that the phrase "amounts which the district received, but not to exceed the amount expended in the 1978-79 fiscal year, for purposes of child development," as used in Section 42237 of the Education Code, means the total amount the district received for purposes of child development programs pursuant to Chapters 292 and 332 of the Statutes of 1978 and Chapter 119 of the Statutes of 1979; however, in the event the district in fact did not expend that total amount, the phrase means that amount thereof actually expended for child development programs.

QUESTION NO. 2

Under Item 328 of the Budget Act of 1979 (Ch. 259, Stats. 1979), is the amount to be apportioned to a school district from the \$37,000,000 provided in category (a) of Item 328 limited to an amount equal to a reduction in the district's 1979-80 entitlement of funds from Section A of the State School Fund?

OPINION NO. 2

Under Item 328 of the Budget Act of 1979, the amount to be apportioned to a school district from the \$37,000,000 provided in category (a) of Item 328 is not limited to an amount equal to the reduction in the district's 1979-80 entitlement of funds from Section A of the State School Fund.

ANALYSIS NO. 2

The pertinent language in Item 328 of the Budget Act of 1979 reads as follows:

"328--For child development programs, for allocation to school districts and other eligible agencies maintaining children's centers and child care programs pursuant to Chapter 2 (commencing with Section 8200) or Chapter 2.5 (commencing with Section 8400) of Part 6 of the Education Code, Department of Education..... 124,747,851

Schedule:

(a) General child development programs..... 139,340,190

* * *

"Provided further, that \$37,000,000[*] of the funds scheduled in category (a) for general child development programs for district child development programs are used to continue state General Fund revenues provided in fiscal year 1978-79 by Chapter 292 of the Statutes of 1978 in lieu of no longer available district revenues generated by child development permissive taxes levied pursuant to Sections 8329 and 8330 of the Education Code in 1977-78 for such programs.

* * *

"Provided further, that the Superintendent of Public Instruction shall reduce the 1979-80 entitlement of funds from Section A of the State School Fund to each school district by the amount

* This amount results from a reduction by the Governor in the amount authorized by the Legislature.

of funds authorized to be received by the school district as in-lieu moneys generated by the child development permissive taxes levied pursuant to Sections 8329 and 8330 of the Education Code, unless the calculation of school district revenues to be received pursuant to comprehensive local government fiscal relief legislation enacted on or before January 1, 1980, expressly excludes revenues received by districts in lieu of moneys generated by child development permissive taxes levied pursuant to Sections 8329 and 8330 of the Education Code.

* * *"

The Budget Act of 1979 authorizes the Department of Education to allocate in the 1979-80 fiscal year from the \$139,340,190 appropriation in category (a) of Item 328, the amount of \$37,000,000 to continue state support for child development programs; this amount to be in lieu of a school district's revenues previously generated by child development permissive taxes levied pursuant to Sections 8329 and 8330 of the Education Code in the 1977-78 fiscal year.

An additional proviso in Item 328 of the Budget Act of 1979 requires the Superintendent of Public Instruction to reduce a school district's 1979-80 fiscal year entitlement of funds from Section A of the State School Fund by the amount of funds authorized to be received by the school district in lieu of the revenues previously generated by the permissive taxes levied pursuant to Sections 8329 and 8330 of the Education Code. An exception from this requirement is provided if legislation is enacted on or before January 1, 1980, which expressly excludes this in-lieu money.

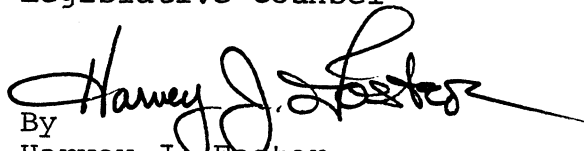
Chapter 1035 of the Statutes of 1979, effective September 26, 1979, amended Section 42237 of the Education Code, as added by Chapter 282 of the Statutes of 1979 (A.B. 8) to expressly provide that the amount which a district received, but not to exceed the amount expended in the 1978-79 fiscal year, for purposes of child development programs from funds provided pursuant to Chapters 292 and 332 of the Statutes of 1978 and Chapter 119 of the Statutes of 1979, is to be excluded in the recalculation of the 1978-79 funding level.

Mr. Thomas W. Hayes - p. 6 - #7054

Thus, we conclude that, under Item 328 of the Budget Act of 1979, the amount to be apportioned to a school district from the \$37,000,000 provided in category (a) of Item 328 is not limited to an amount equal to the reduction in the district's 1979-80 entitlement of funds from Section A of the State School Fund.

Very truly yours,

Bion M. Gregory
Legislative Counsel


By
Harvey J. Foster
Deputy Legislative Counsel

HJF:jp

cc: Honorable S. Floyd Mori, Chairman
Joint Legislative Audit Committee

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BION M. GREGORY

Sacramento, California
April 25, 1980

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Mr. Thomas W. Hayes
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School Districts: Revenue Limits - #7053

Dear Mr. Hayes:

You have asked the following questions regarding revenue limits of school districts, which we have separately considered and analyzed below.

QUESTION NO. 1

Does the Department of Education have the authority to disallow or deem unjustified a revenue limit adjustment filed by a school district under Section 42243.6 of the Education Code?

OPINION NO. 1

The Department of Education does not have the authority to disallow or deem unjustified a revenue limit adjustment filed by a school district under Section 42243.6 of the Education Code, but the department could provide information to the Controller with the recommendation that the Controller perform an audit to determine whether such an adjustment is proper in a particular case.

ANALYSIS NO. 1

The revenue limit for each school district within a county is determined by the county superintendent of schools, but the Superintendent of Public Instruction is authorized to adopt regulations which provide for uniform and consistent implementation of revenue limits (see Secs. 42238 and 42246, Ed. C.*). Section 42243.6 establishes one permissible adjustment, among others, in the revenue limit of a school district, providing, in pertinent part, as follows:

"42243.6. The revenue limit of a school district, as determined under Section 42237 or 42238, may be increased by the amount necessary to pay costs mandated by the courts, as defined in Section 2205 of the Revenue and Taxation Code, pursuant to final court orders issued after January 1, 1978, to pay costs mandated by the federal government, as defined in Section 2206 of the Revenue and Taxation Code, pursuant to any federal statutes or regulations enacted or issued after January 1, 1978, and to pay costs mandated by an initiative enactment, as defined in Section 2206.5 of the Revenue and Taxation Code, by means of any initiative statutes or amendments adopted or enacted after January 1, 1978.

"The Controller may audit any revenue limit increase under this section and any data related to the establishment thereof. If the Controller determines that such limit exceeds a limit which would be necessary to meet the federally mandated, initiative-mandated, or court-mandated costs, or if the Controller determines that such limit has been increased to pay any cost mandated by a court which has resulted from litigation entered into in order to avoid the revenue limits established by this chapter, or if the Controller determines that a school district has erroneously concluded that it is subject to costs mandated by the courts or costs mandated by the federal government, the Controller shall immediately notify the governing board of the school district of such determination, and the school district shall reduce its revenue limit by an appropriate

* All references to code sections are to sections of the Education Code unless otherwise noted.

amount for the next succeeding fiscal year. In the event that a school district fails to make such a reduction in its revenue limit, the Controller shall request the Attorney General to bring an action under Chapter 2 (commencing with Section 1084) of Title 1 of Part 3 of the Code of Civil Procedure to force a reduction in the limit."

It is clear under the above language that the Controller has authority to audit any revenue limit increase pursuant to costs mandated by the courts, costs mandated by the federal government, or costs mandated by an initiative enactment. If the Controller determines, pursuant to Section 42243.6, that any adjustment for such reasons is improper, the Controller is required to immediately notify the governing board of the school district and require it to reduce its revenue limit accordingly, or in the absence of compliance with such an order, refer the matter to the Attorney General for commencement of a judicial action to mandate the revenue limit reduction.

Consequently, the Legislature has created a complete statutory scheme for implementation and enforcement of Section 42243.6, which does not encompass discretionary review authority of the Department of Education. It is a fundamental rule of statutory construction that the authority of the court to interpret a statute is limited to an interpretation based on the language used, with the court having no power to rewrite the statute so as to make it conform to a presumed intention which is not expressed, and the same rule binds a state agency authorized to enact regulations to interpret a statute (Macomber v. State Social Welfare Board, 175 Cal. App. 2d 614, 617). In this instance, the Legislature has expressly vested review authority for federally-mandated, initiative-mandated, or court-mandated costs in the Controller, and in our opinion the courts would not expand this procedure by additionally vesting such authority in the Department of Education. However, if the Department of Education receives information indicating a possible discrepancy with regard to federally-mandated, initiative-mandated, or court-mandated costs, there is no law which would preclude the department from facilitating an audit of the matter by providing any relevant information to the Controller.

Therefore, in our opinion, the Department of Education does not have the authority to disallow or deem unjustified revenue limit adjustments filed by school districts under Section 42243.6 of the Education Code, but the department could provide information to the Controller with the recommendation that the Controller perform an audit to determine whether such an adjustment is proper in a particular case.

QUESTION NO. 2

Must all claims for revenue limit increases under Section 42243.6, which are deemed justified by the Department of Education, be paid, or does the department have the discretion to not authorize such increase even though deemed justified?

OPINION AND ANALYSIS NO. 2

As discussed in Analysis No. 1, the Department of Education does not have the authority to deny increases in a school district's revenue limit under Section 42243.6, and the authority to review any particular revenue limit adjustment under that section is vested in the State Controller. Therefore, all claims for revenue limit increases under Section 42243.6 must be paid in the absence of action by the Controller to suspend payment.

QUESTION NO. 3

Do the costs necessary to implement the plan of desegregation in the Los Angeles Unified School District qualify under Section 42243.6 as court-mandated costs pursuant to final court orders issued after January 1, 1978?

OPINION NO. 3

The costs necessary to implement the plan of desegregation in the Los Angeles Unified School District qualify under Section 42243.6 as court-mandated costs pursuant to final court orders issued after January 1, 1978.

ANALYSIS NO. 3

In Crawford v. Board of Education, 17 Cal. 3d 280, the initial action to integrate the Los Angeles Unified School District was brought in the Superior Court of Los Angeles County on August 1, 1963, by Black and Mexican-American students to compel the governing board of the Los Angeles Unified School District to eliminate racial

segregation within the district. The trial court entered a judgment in May, 1970, ordering the defendant school board to prepare and implement a feasible plan for the desegregation of its schools after finding that the schools of the Los Angeles Unified School District were severely segregated and were becoming increasingly segregated due to a failure of the governing board of the district to take affirmative steps to alleviate the segregated conditions, and certain affirmative acts of the governing board that the court characterized as "de jure," which contributed to the perpetuated racial and ethnic segregation of the district (Superior Court of Los Angeles County, No. 822854, Alfred Gitelson, Judge).

On March 10, 1975, the court of appeals reversed the trial court decision and held that the acts of the board of education were not "de jure" or intentional acts of discrimination and that the findings did not provide a basis under state law for requiring the governing board of the Los Angeles Unified School District to take action to eliminate racial segregation (Crawford v. Board of Education of City of Los Angeles, 120 Cal. Rptr. 334).

On appeal, the California Supreme Court vacated the court of appeals' decision on June 28, 1976, affirmed the trial court decision, except insofar as the judgment defined segregated schools in terms of specific racial and ethnic percentages, and remanded the case for further proceedings (Crawford v. Board of Education, supra). The court interpreted the California Equal Protection Clause to mean that "de facto," as well as "de jure," segregated public schools are unconstitutional in California and are to be eliminated by all practicable means (17 Cal. 3d at p. 297). Also of concern here, the court stated that "[t]he findings in this case adequately support the trial court's conclusion that the segregation in the defendant school district is de jure in nature" (17 Cal. 3d at p. 285).

Various judicial actions have occurred in the case since the California Supreme Court's decision, but the action pertinent to this question is an order by Judge Egly of the Los Angeles Superior Court, dated February 7, 1978 (No. C 822 854, Minute Order). This order was the first order in the Crawford case issued after January 1, 1978. This is a significant fact, since as quoted in Analysis No. 1, Section 42243.6 authorizes adjustments in revenue

limits of school districts for costs mandated by the courts pursuant to final court orders issued after January 1, 1978. Judge Egly's order of February 7, 1978, constituted an approval of the Los Angeles Unified School District's Plan II as an initial step toward the eventual desegregation of the district. On August 21, 1979, a further order was issued by Judge Egly requiring, among other things, that the district implement programs to alleviate desegregation in accordance with its approved plan (see Minute Order Respecting Temporary Implementation of RINS Component, Designated Order C 822 854).

The initial issue, then, is whether court orders in that case, subsequent to January 1, 1978, constitute "final court orders" within the meaning of Section 42243.6. A distinction has to be made here between the case itself being final on its merits and orders made by the court during the course of the litigation being final. Under current civil procedures, whether the orders in the Crawford case are considered part of a mandatory injunction or as another order of the court, they would be treated as "final" orders (See Secs. 904.1 and 1008, C.C.P.). Further, in a desegregation action, the power of a court is equitable in nature, and the court exercises continuing jurisdiction until the problem is resolved (e.g., see Crawford, supra, pp. 305-307). Consequently, in a desegregation case, we think that it would be proper to allow revenue limit adjustments where there is a definite, substantial relationship between such adjustments and actions taken or needed to be taken pursuant to equitable orders of the court. The orders discussed herein from the Crawford case did result in obligations being imposed upon the Los Angeles Unified School District, and the orders were not appealed within the prescribed time, thereby becoming "final".

Therefore, the costs necessary to implement the plan of desegregation in the Los Angeles Unified School District qualify under Section 42243.6 as court-mandated costs pursuant to final court orders issued after January 1, 1978.

Very truly yours,

Bion M. Gregory
Legislative Counsel



By
Christopher Zirkle
Deputy Legislative Counsel

F-6

CZ:spm

cc: Honorable S. Floyd Mori, Chairman
Joint Legislative Audit Committee

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
Secretary of State
State Controller
State Treasurer
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
California State Department Heads
Capitol Press Corps