



A SUMMARY OF ASSEMBLY BILL 8

Assembly Bill 8, a comprehensive public finance law for schools, cities, counties, and special districts, was passed in July 1979. It is the major bill in a legislative package (AB8, SB190, AB242 and SB186) which appropriates \$8.1 billion of state and local funds to pay for K-14 education in 1979-80: \$6.8 billion for general purpose support, \$1.2 billion for categorical aid, and \$0.1 billion for the State Teachers Retirement System.*

AB 8 was intended to provide California's public schools with a stable, long-term financing system, one which would eventually meet the Serrano v. Priest requirement for more nearly equal general purpose expenditures district to district.

Background

California has long supported both general purpose programs for all children and categorical programs for special purposes and special children. Traditionally, most support for general purposes came from local property taxes and was supplemented by state funds in districts with lower property wealth. Categoricals were supported by revenues from state and federal sources.

In a change forced by public concern about taxes and court concern about equitable financing of education, the historical system of local school boards deciding property tax rates was suspended by the Legislature in SB 90 (1972). This law placed a ceiling, the revenue limit, on the amount of money each district could receive per pupil for its general program. The Legislature made subsequent annual inflation adjustments to each district's revenue limit, often just before the beginning of the new school year. Control of the size of school districts' general purpose budgets shifted to the state.

Because revenue limits were based roughly on the amounts districts had been spending in 1972 and because those amounts depended on the property wealth of a district, revenue limits varied considerably district to district. Following the Serrano decision which declared those disparities to be unconstitutional, the Legislature passed a comprehensive long-term school finance law, AB 65 (1977). Intended to meet the court requirements and to provide a stable plan for financing schools, AB 65 attempted to bring lower spending districts up to the level of higher spending districts while reducing property tax disparities district-to-district. It also increased support for categorical programs.

AB 65 would have stayed in place indefinitely. However, nine months later, in June of 1978, Proposition 13 passed, dramatically reducing local property taxes, the funds on which schools relied. As an emergency solution to the crisis caused

*These dollar amounts may change as actual expenditures are made.

Background (cont.)

by Proposition 13, the Legislature "bailed out" schools, cities, counties and special districts with state funds in SB 154 (1978). Since the portions of AB 65 which depended on property taxes were no longer viable, the Legislature had to consider alternatives for a new way to pay for schools. AB 8 (1979) was the eventual compromise.

Sources of Revenue

The shift of schools' financial support from local to state sources is accelerated in AB 8. Most of the remaining post-Proposition 13 local property taxes are assigned to cities, counties and special districts. In 1979-80 schools will receive an average of 80% of their income from state sources and 20% from local taxes, compared with 40% from state sources and 60% from local taxes prior to Proposition 13. In addition to state and local funds, school districts, county schools offices, and the State Department of Education will receive about \$985 million in federal funds, largely categorical aid, in 1979-80.

Distribution of Revenue

The traditional pattern of funding both general purpose programs, revenue limits, and categorical programs is continued. Average 8.6% increases are permitted for revenue limits. Inflation adjustment amounts for categorical programs vary. An increase of 8.2% over last year, 1978-79, is provided for K-12 education statewide.

Revenue Limit Increases

Revenue limit increases are granted on a sliding scale, depending on whether a district is unified, elementary or highschool, and on how much it spends compared to the statewide average for districts of that type and size. Districts spending at a higher level per pupil receive the minimum increase; districts spending at lower levels per pupil receive the maximum increase. This attempt to narrow expenditure differences is intended to move districts closer to the Serrano requirements. For 1979-80 the increase is a percentage of the statewide average increase of 8.6%. In future years a specific dollar amount is allowed: from \$85 to \$150 per pupil for 1980-81; from \$75 to \$140 for 1981-82; from \$65 to \$130 per pupil for 1982-83. For 1979-80 and 1980-81 only, all districts are assured a minimum 2% overall increase.

Other Allowances

Districts with rapidly declining enrollment are granted an allowance to offset the drop in total district revenue. Small districts which spent more than 3% of their general fund budget on transportation in 1977-78 will receive additional funds to support those high costs. A number of other adjustments are made to each district's revenue limit, including a recalculation of the beginning or base number. Continuing a practice started in AB 65, 19 of the state's largest school districts will receive \$62 million additional general support called Urban Impact Aid.

Deflator

With an eye toward possible future limits on state revenues, the Legislature included a formula, the deflator, to reduce funds to schools, counties, cities and special districts if necessary. A newly formed state commission must estimate by June 10 the total of state revenues and surplus for 1980-81. If that estimate is more than \$100 million below \$20.6 billion, the deflator will go into effect automatically unless the Legislature votes by joint resolution before June 30 to suspend it. If that vote is not made, half of the projected shortfall will be covered by reducing AB 8 allocations to schools; the other half will be taken from allocations to cities, counties, and special districts. This procedure will occur every June.

The reduction to schools would be made in their general purpose revenue income, pro rata. Categorical support, funds for the State Department of Education, and state contributions to State Teachers Retirement System would not be affected by the deflator. The inclusion of the deflator in AB 8 raises once again the possibility of schools' not knowing what amount of revenues to count on for the new year until budget planning is well under way.

Categorical Aid

The package of laws passed in summer of 1979 provides support for all categorical programs. (The requirements for the bilingual-bicultural program will be revised in separate legislation.)

AB 8 contains a schedule for review of 19 categorical programs over a three-year period. Existing regulations for those programs would automatically cease unless the Legislature specifically decided to renew them, but the funds would continue to be granted to school districts. Although the monies would become part of the general purpose revenue, they would be earmarked for the particular programs and would be subject to audit. Whether or not the program regulations cease, parent advisory committees and school site councils already in existence would have to continue. Such councils would have to be established in schools which subsequently received Economic Impact or Bilingual funds.

Facilities

Because a district may no longer levy property taxes to pay for the construction of new facilities, AB 8 earmarks funds from two sources to the State School Facilities Aid Fund. The first is funds that would result from the greater than expected growth in assessed value, "slippage"; the second is from a portion of tax revenues to cities and counties which would exceed their Gann limitation. Some money is set aside for the purchase of portable classrooms for schools with expanding enrollments. Beginning in 1980-81, the state will provide matching funds to districts which set up a separate account for long-term maintenance. By law, districts may now add revenues from the sale of school property to their general fund.

The Future

Within three months of the time AB 8 became law, California voters approved Proposition 4, the Gann Amendment to Article XIII B of the California Constitution, which places limits on the amount of tax monies which may be appropriated by governmental entities, including school districts. The funding mechanism for revenue limits and categoricals established by AB 8 could in the future conflict with an individual district's Gann limitation. A second initiative with possible impact on school revenues, Jarvis' Proposition 9, will be on the June 1980 ballot. If approved by the voters, this constitutional amendment would cut state personal income taxes by about 50%, thereby potentially reducing by a large amount one important source of state support for schools. In that event, the Legislature could be forced once again to reconsider sources of funding and distribution of funds to pay for K-12 public education.

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