Those who followed the legislative scene in 1976 are aware that the community college section of SB-1641 began as AB-2790. The State Department of Finance formulated the basic provisions of AB-2790 and designed them to place tight constraints on growth. SB-6 with its combined features of foundation guarantees and district revenue limits had threatened to exhaust state resources for community college support. Under SB-6, both state and local income were geared to the number of students, and enrollments grew rapidly as colleges served new constituencies. Once a district qualified for equalization—and by 1976 all but four of the seventy had achieved this status—the state picked up the full foundation-level cost on each unit of growth in regular ADA. State support under SB-6 jumped from $180M in 1972-73 to $337M in 1974-75 (almost doubling in two years).

By the spring of 1975, the Department of Finance suddenly became aware that costs could substantially exceed $400M the following year unless drastic action was taken. It was too late in the legislative session for a substantive finance bill, so a hastily contrived enrollment cap was placed in the budget bill. The cap limited state apportionment to a 5% growth for each district.

Official policy positions seemed to be working at cross purposes. For several years, colleges had been exhorted to serve new constituencies—the disadvantaged, the minorities, the physically handicapped, the returning veterans, the unemployed and the underemployed, women struggling for economic survival or career equality, seniors pushed out of the mainstream of society—the challenges seemed unending and the colleges responded magnificently.

Now under the cap, the colleges were being warned to "slow down," and political leaders were rationalizing their decisions with deprecating allusions to courses in macrame or potty training. The cap was a holding action to provide time to "reform" the finance system. The first move was to wipe out the foundation guarantees and to replace the old formulas with percentage equalizing. The legislative vehicle was AB-2790, which later was amended almost intact into SB-1641, the omnibus public school finance bill.

The New Finance Legislation

The passage of SB-1641 significantly changed California's system of community college finance. Revenue control was replaced by tax rate control, which is not a new concept to college administrators who have lived in California any length of time. Until the enactment of SB-6 and SB-90 in 1973, tax rate control had been a basic component of the state's public school finance plan.

A second major change in SB-1641 involved the abandonment of foundation program guarantees in favor of a percentage-equalizing formula for the distribution of state funds. Under the foundation program formula, each district was assured a certain level of support per ADA (most recently $1080 for regular ADA) through a combination of state and local funds. A similar guarantee (at a lower level) was set for defined adult ADA. The local share of the foundation program was determined by applying a computational tax (set in the law) against the district assessed valuation (modified to equalize assessment practices). The state share was then determined by deducting the local contribution from the foundation guarantee. The computational tax technique resulted in an equalization of state support. A "poor" district raised less money per ADA for its share of the foundation program, thereby receiving more state aid.
Ironically, SB-1641 kept foundation program guarantees and revenue limits for K-12 districts, where lack of growth is failing to generate sufficient fiscal support, whereas for the rapidly growing community colleges, percentage equalizing and maximum tax rates became the growth control devices. (Pity the poor California taxpayer, who must now try to understand two very complex systems of public school finance.)

Added features of the bill included the lifting of the enrollment cap, the elimination of the defined adult, expansion of the small district formula, and the addition of a demographic factor. All of these features will be discussed later in the report.

Percentage Equalizing

The percentage-equalizing concept is not new on the scene. It has been used since 1967 to determine the state matching contribution under the Junior College Construction Act. The Act provided for equal sharing, state and local, in financing approved capital projects. The 50/50 matching applied to the overall state average, not to each district's projects. Equalization is achieved by dividing the district assessed valuation per ADA into the statewide assessed valuation per ADA to determine an equalization factor. If a district is below average on the relative wealth scale, the factor is greater than one, or vice versa if the district is above average. The appropriate factor is multiplied by 50 to determine the state share for that district.

Example: If a district's AV/ADA is $80,000 and the state average $100,000, the equalization factor would be 1.25 and the state share would be 50 x 1.25 or 62-1/2% of the cost of a project.

This same percentage-equalizing method will now be used to determine the state level of operational support for each district. Legislative proposals in the 1976 session applied the technique in various ways. Some began with a given support ratio, say 45%. Others used a fixed dollar amount (the Board of Governors' bill). SB-1641 used the ratio of support for 1975-76 (slightly over 44%) as the base for percentage equalizing. An equalization factor of "2" was set as the upper limit (to keep Lassen from going off the board!). The lower limit is the basic aid of $125 per ADA, which every district is assured.

Tax Rate Control vs. Revenue Control

Maximum tax rates have long been a control device in school finance. Prior to SB-6, community colleges had a 35-cent maximum general purpose rate. Over the years, as the general rate proved unequal to the task because of rapid growth or new mandates, the legislature added a patchwork of permissive taxes. These became so numerous and so complex that they defied understanding except by the most astute business managers. Some administrators became experts at ferreting out obscure sections of the Education Code to justify special taxes. No doubt one of the reasons legislators welcomed the SB-90 and SB-6 revenue control bills was the prospect of eliminating most permissive taxes.

Although a few of these special taxes were maintained, revenue control eliminated the need for most of them. Control was achieved through the mechanism of a revenue limit set for each district based on its 1972-73 level of expenditures and adjusted annually by an inflation amount. The system worked nicely for the colleges during periods of expanding enrollment. Each unit of growth generated the necessary dollars for support. If enrollment increased faster than assessed valuation, the
tax rate was hiked to obtain the necessary local share. On the state side; the foundation guarantee was raised to almost the same level as the average state-wide revenue limit, a support-guarantee level which historically the community colleges had never enjoyed. In retrospect, revenue limit financing served the colleges well and with reasonable equity during a period of rapid growth.

The new finance law returns to tax rate control. It fixes a maximum rate for each district based on what the district was authorized to levy in 1975-76. The calculation of this maximum rate is replete with the intricacies of property tax financing--secured and unsecured taxes, prior year taxes, the Collier factor, the computed costs of financing growth in excess of the cap, and others too numerous to detail. The necessary clean-up bill already has a lengthy list of suggested clarifications and interpretations. Districts, county offices, and the Chancellor's staff will struggle with this problem for some time.

Enrollment forecasters have for several years predicted a leveling of college enrollments in the late 70's. If their estimates prove to be correct, the colleges may view the shift to tax rate control as a fortuitous development. Revenue control financing has proved to be a disaster for elementary and high school districts as K-12 enrollments have leveled and inflation allowances have been insufficient to meet rapidly increasing costs. SB-6 would have brought the same fate to community colleges if their enrollments had leveled. A maximum tax rate, on the other hand, keeps the district abreast of costs, at least on the local share, as long as assessed valuations increase at least at the general inflationary rate. The problem will be to maintain a realistic inflation factor in the formulas which set state apportionments.

The Disappearing Defined Adult

The defined adult statute has been in the Education Code since the early 1950's. It was developed as a pragmatic way of determining the level of state support for adult classes. The problem of course definition was with us then; the rhetoric was directed at cake decorating instead of macrame. To avoid the problem of defining the types of courses that would be eligible for full state support, the wise heads of the 50's (probably Ron Cox was one of them) came up with the idea of counting enrollment in two ways, one for the "regular" students who in those days were the 18, 19, and 20-year olds, another for "students over 21 years of age carrying less than 10 hours." The latter ADA, known as "defined adult," received a lower level of state support.

In the 1960's and 1970's, enrollment patterns changed significantly. Students were older, and many more enrolled part time in credit courses. The defined adult became an anachronism. Colleges faced the anomaly of two students in the same course receiving different amounts of state support depending on age or hours of enrollment. This obvious inequity motivated the struggle to eliminate the defined adult, a legislative battle which was finally won in 1976.

Winners and Losers

The objective this past session was to turn an undesirable bill initiated by a fiscal control agency into one where every district would benefit. The big winners will be those districts with larger numbers of defined adults and continuing rapid growth. The elimination of the defined adult results in major changes in the relative wealth schedule of the districts, which in turn causes shifts in equalization aid. All ADA, defined adult and regular, now becomes part of the
divisor in computing assessed valuation per ADA. Here's an oversimplified example to illustrate the point.

The proportion of defined adult ADA has been about 18% statewide. District X has 10,000 total ADA, of which 4000 (40%) is defined adult. Heretofore, District X used only the 6000 regular ADA in figuring its AV/ADA. Let's assume its AV (modified) was $600M. Thus, the AV/ADA would be:

\[
\frac{$600M}{6000} = $100,000
\]

Now, all ADA is included in the divisor. Note the significant change.

\[
\frac{$600M}{10,000} = $60,000 \text{ AV/ADA}
\]

If the average AV/ADA statewide was $100,000, under the old technique using only regular ADA, the equalization factor for state apportionment was computed as follows:

\[
\text{EF} = \frac{\text{Statewide AV/ADA}}{\text{District AV/ADA}} = \frac{$100,000}{100,000} = 1
\]

With the elimination of the defined adult, the factor would be:

\[
\text{EF} = \frac{$100,000}{$60,000} = 1.66
\]

The above example illustrates the substantial increase in equalization which occurs for District X when all ADA is counted the same.

**Note:** The statewide AV/ADA would be expected to change with the inclusion of all ADA in the divisor, but it was kept the same in this example to simplify the comparison.

Other winners are small districts under 3000 ADA, who will benefit from the extension of the small district formula. The increased support is certainly justified. Studies and just common sense tell us that unit costs are inevitably higher in small districts which attempt to provide a reasonably comprehensive program.

The final group of winners benefit from a new concept labeled the demographic factor. It's an effort, although admittedly not a very good one, to recognize that socio-economic conditions in the urban centers often cause higher costs. To include this in a finance formula poses a difficult problem, that of coming up with a valid quantitative measurement of such conditions. The SB-1641 demographic factor measures the percentage of unserved adults compared to the statewide average. Districts above the average get a special allocation. In some respects, the demographic factor was a political expedient; it isn't a very good indicator of special costs caused by socio-economic conditions.

**Data Simulations**

Those representing community colleges in the legislative arena made a strenuous effort to ensure that each district received at least as much under new proposals as it would have received were the cap maintained. Fortunately, Chuck McIntyre,
with his usual foresight, had developed the capability of producing data simulations for all districts to show the impact of the various proposals which were being advanced by state agencies, legislative staffs, or community college groups. Because of the many variables in finance formulas and the necessity of plugging in estimates of growth, assessed valuations, and other factors, the simulations at best could not be highly precise in showing district-by-district impact. However, they were a great improvement over the conceptual tests which had been the only impact-assessment technique in the past. Legislative changes occur at a rapid pace in the closing days of the session, and when the crunch is on, impact testing is of great importance. Chuck's staff literally provided overnight service in those last critical days. I'm sure data simulation helped prevent serious negative impacts on certain districts. It would be too much to expect that it found all the problems unforeseen by those who wrote bill provisions.

Questions and Answers

Q - Should colleges encourage growth and, if so, how much? What are the effects of declining enrollments?

A - The new bill was designed by the Department of Finance to curb growth by eliminating the geometric increases in district unit apportionments under foundation guarantees and by restoring maximum tax rates so that local income is not enrollment generated. The only growth which brings fiscal benefits will be from enrollment in low cost programs or growth which can be contained with current staffing. Declining enrollments will not imperil districts to the extent they did under SB-6 inasmuch as only the state share is affected.

Q - Are any types of students financially favored over others in the formula?

A - No. The elimination of the defined adult results in essentially all ADA being counted the same for apportionment purposes.

Q - Are any types of programs favored?

A - Low cost programs. Conversely, new high cost programs, such as allied health courses, will not be adequately financed, nor is there any consideration of the support services required for certain kinds of programs and students. The colleges have generally opposed categorical aid. We may wish to revise our position.

Q - Do colleges receive state apportionment on current year growth? How about local support?

A - Yes, on state apportionment. Enrollment growth does not affect local support.

Q - What about budgeting strategy?

A - I predict that the traditional practice of business managers prior to SB-6 will return. Conservative growth projections will be used.

Q - Why do we need to know the size of the district adult population?

A - To calculate the special apportionment due to the demographic factor. Districts with higher-than-state-average numbers of unserved adults qualify. Also, the percentage change in a district's adult population is used as part of an optional technique in adjusting its tax rate.
Q - Why did some districts do better than others? What was the spread?

A - This question has been addressed in the body of the report. In general, the primary beneficiaries were those districts with higher-than-average percentages of defined adults, those under 3000 ADA, those with higher-than-average unserved adult populations, and the rapidly growing districts.

Data simulations project a statewide average increase of $106 in revenue per ADA. District revenue increases range from $58 to $355 per ADA, which, if the simulations prove to be reasonably close, is much too great a spread in my judgment.

Future Legislation

School finance legislation in many ways seems analogous to county road building (and some college parking lot maintenance). It's patch on patch.

Property valuations are not a good measure of the ability to support education, or other public services, yet we continue to equalize support from the state based on assessed valuations. The error is compounded by the ways in which support formulas are contrived. For example, eleven of the eighteen community college districts in the lowest quartile on relative wealth receive high levels of state support, yet have tax rates which are below the statewide average. There is no equity in a finance system which benefits districts that make the least effort locally. Changes are surely needed in the equalization of support.

The demographic factor is a crude measure which needs improvement if it is truly to be a socio-economic factor.

Some kinds of categorical aid should be considered, e.g., student personnel services. Districts are continuously being required or urged to provide special support services, almost always with no funding for the additional costs. Those who create new financial aid programs (a worthy project!) apparently presume that EOPS, BOG, EOG, NDSH, veterans benefits, and the multitude of other special programs totaling several million dollars in most districts, can be administered as a hip-pocket operation. The cost allowances for administration have been miniscule. Somehow, districts are supposed to squeeze these costs out of the basic apportionments. Inadequate staffing and poor administration too often may be the result.

Technical problems in the new formulas are numerous and too complicated to discuss in this report. Needless to say, there will be a lengthy clean-up bill with much debate on the proposed changes. Some of the problems are a product of the time squeeze caused by the belated move on the part of both the Chancellor's office and the field to deal with contending bills. Other agencies were writing the finance legislation which was destined to come forth, and they were writing it from their own perspectives, with little input from those of us who have to live with the results. There's something wrong with our legislative program when the Department of Finance and the Department of Education develop the fiscal support bill for the community colleges. The Chancellor's office unfortunately had to give its attention to the Board of Governors' finance legislation until such time as the Behr bill failed in committee. When they were freed from this commitment, the Chancellor and his staff made significant contributions toward the improvement of AB-2790, and Chuck McIntyre gave of his talent and the resources of his office throughout the legislative process.
In conclusion, I should like to make a special plea for more cooperation among the various community college organizations and the Chancellor's office on finance legislation. We seem to be caught up in matters of protocol and organizational relationships that impede our work. There are enough pitfalls in the political arena without creating more through our own ineptitude. Field representatives need to build a more positive working relationship with the Board of Governors and its staff. The Board should give the Chancellor more freedom to deal with finance proposals which fall outside the Board's own program. Organization personnel should display greater educational statesmanship, subordinating their concerns about who gets credit for what. It takes our best team effort to get a good finance bill through the political process. We can't do it with the ranks divided.

Bob Swenson, Chairman
ACCCA Finance Committee
August, 1976