PACE

POLICY ANALYSIS FOR CALIFORNIA EDUCATION

Proposition 174 (Voucher Initiative) Financial Analysis

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Summary Conclusions

- Fiscal consequences of Proposition 174 are characterized by uncertainty. Financial projections are heavily dependent upon assumptions regarding the number of students who redeem vouchers and a variety of decisions which must be made by the legislature and the governor.

- Proposition 174 exposes the state to $1.35 billion in potential added costs. These costs are attributable to the possible need to pay for all currently enrolled private school students.

- In order for the state to realize savings from Proposition 174, (1) approximately 1 million students would have to transfer from public schools to "scholarship" schools, and (2) policymakers would need to choose not to reinvest the "savings" in education.

- If "savings" from Proposition 174 are not reinvested in education, then per pupil revenues for public school students would drop and the value of the voucher would decline.

- Substantial annual taxpayer savings could result if "savings" from Proposition 174 were not reinvested in schools or not transferred to other government-funded services.

- Proposition 174 saves public costs of school construction, depending upon how many current and future public school students utilize "scholarship" schools.

- Per pupil revenue differences among public school districts will increase proportionate to the number of public school student transfers to "scholarship" schools.

- Proposition 174 dilutes the public school minimum per pupil revenue guarantee voted by the electorate in 1989. (This is the Proposition 98 guarantee.)

Introduction

On November 2, 1993, Californians will face their most important education decision since the state's formation. Ballot Proposition 174, if enacted, will amend the state constitution and establish "scholarships" redeemable by parents for their children's kindergarten through twelfth grade schooling.

If this ballot measure passes, public schools will continue to exist, as will today's many kinds of private schools. However, alongside of these two conventional schooling alternatives will be a third choice, "Scholarship Redeeming Schools."

These new schools will be paid for, or at least financially subsidized, by public funds. However, these scholarship schools may well have privately selected governing boards. They may be religiously oriented. Does this make them public or private schools?

We do not know the answer to this question. Ultimately such a determination may be a matter for the courts, the legislature, or simply a matter of no consequence. There are many additional unknowns regarding the operation of the proposed voucher plan and its possible effects, both good and bad. However, in this paper we make an effort to reduce some of the uncertainty on at least one dimension, by addressing questions about public costs and possible public cost savings.

Our principal question here is, "What are the financial consequences of the proposed voucher plan?"

We divide this concern into several subquestions:

- Will the voucher plan save or cost money for the *state* of California?

- How will the voucher plan interact with the complicated public school financing provisions of the currently controlling constitutional provision, Proposition 98,[1] and will any of these interactions reduce (1) the dollar value of the voucher or (2) total funding conventionally available to public schools?

- What will be the financial consequences for local public school *districts*?

- What will be the financial effect on an individual public *school* if a student leaves to attend a "scholarship redeeming school?"

- What are the possible interactions of the voucher plan with issues of public school per pupil revenue disparity raised in the California Supreme Court's 1976 decision in *Serrano v. Priest?*

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[1] Enacted as a ballot initiative in 1989.

A Primer on California School Finance

Before addressing the questions PACE attempts to answer in this paper, the reader needs a basic understanding of the manner in which California now finances its public and private schools.

California Public School Finance

Two significant decisions, one by the judiciary and one by the electorate, have provided California with what, for all practical purposes, is a state system of public school finance. In the 1976 court case, *Serrano v. Priest*, the California Supreme Court decreed that there could be no significant link between the local property wealth of a school district and its per pupil expenditures. This decision, coupled with the 1978 enactment of Proposition 13, the constitution-amending property tax limitation, guided the formation of a public school funding system in which the legislature and governor, through the state budget, annually determine local district per pupil revenue levels.

The per pupil revenue amount allowed by law for a specific school district is a function of that district's historic spending level. In effect, whatever per pupil revenue amount a school district was raising in 1976 was the level at which it was legislatively "frozen" in order to comply with the *Serrano* decision. Districts in which the "base revenue limit" was below the state average have been permitted to increase their per pupil amounts at a faster rate than districts with revenues above the state average. The general effect has been to compress per pupil revenues in California into a far narrower range than in most other states. In fact, approximately 95% of California's school children are within a relatively narrow per pupil revenue range of about $300.

Local property tax proceeds contribute to a specific district's per pupil revenue ceiling. However, if they are insufficient to reach the state specified overall per pupil revenue minimum, then state general funds are allocated to the local district to make up the difference. State lottery revenues are a portion of this state aid. Federal financing, and selected state special funds, are provided to local school school districts for the education of children with expensive special needs.[2] These funds are provided in addition to local property tax revenues and state funding. Local school district governing boards, except in the instance of a few unusually property wealthy school districts, have little say in determining their per pupil revenues. In effect, they have no property taxing authority. This is a far different system than most states in which local school district governing boards determine per pupil revenues by establishing property tax rates.

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[2] These are known as "categorical aids" because a local school district can only spend the revenues for the purposes categorized by the higher level of government in granting the special revenues.

California Private School Finance

It is difficult to provide a comprehensive description of private school finance in California because there is no private school "system." Most private and parochial schools operate independently. Even religiously affiliated schools are generally only loosely aligned with each other. Despite sharing a common denomination or ideology, they generally are responsible for generating their own resources school-by-school. Regardless of such complexity, the principal avenue through which private schools generate resources is through the imposition of user fees, tuition. This ranges from a small amount, say $1,000 in some schools, to an annual fee of $10,000 or more in some elite schools. In addition, most private schools charge separately for transportation, after school childcare, books, food, recreational activities, science laboratory supplies, and similar items. Also, private schools typically engage in a variety of fund raising efforts through activities such as bake sales, car washes, and second hand clothing stores.

Please see attached "School Choice Fact Sheet" for relevant school finance information.

Voucher Financing

Proposition 174 specifies that the average amount of the voucher, to be established specifically by the legislature, cannot be less than one-half the amount currently spent on public school students. In today's terms, the per pupil value of the voucher would approximate $2,500.[3] The legislature has the discretion to adjust this average amount by grade level. Thus, for example, vouchers for high schools could be higher than for elementary grades. Keep in mind that the legislature may increase the value of the voucher; the amount is not fixed, and, in fact, may vary from year to year. For example, if state elected officials decided to spend more than $5,000 per *public* school pupil, then the per pupil value of the "scholarship" would increase by half the elevated amount.

The amount the legislature and governor might decide to spend on public school students is itself subject to a constitutional provision, Proposition 98.[4] The voucher initiative also specifies that the amount of an annual "scholarship" in excess of what is paid for tuition can be "credited" to a student's account, established by the state. The excess, the difference between tuition and the voucher amount, can be used subsequently to pay for secondary school or college tuition.

The legislature also has the discretion to pay for transportation in keeping with rules it devises.

The voucher initiative makes no provision for additional public funds to flow to private schools exclusively for school construction or facilities leases. However, there is nothing which prohibits a private school from utilizing all or part of the $2,500 "scholarship" to construct or lease facilities.

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[3] State agencies disagree regarding current public school per pupil revenues. However, estimates range only from $5,000 to $5,200 per pupil. Differences result principally from using Average Daily Attendance (ADA) or Average Daily Membership (ADM) as a divisor, once having summed spending components. This analysis utilizes the $5,000 per public school pupil figure because we believe it to be the most accurate computation of the voucher amount according to Proposition 174 provisions. (The proposition speaks of enrollment, not ADA.) Remember, however, that Proposition 174 authorizes state government to increase the amount of the voucher. $2,500 is only a minimum.

[4] Enacted by ballot initiative in 1989, Proposition 98 specifies the minimum which must be spent on public school students. However, under certain interpretations of the voucher initiative, Proposition 98 formula elements might be altered and the result would be a reduced spending on both public and private school students. We explain these complicated Proposition 98 interactions in a subsequent section of this paper.

Will the Voucher Plan Cost or Save Money?

A prominent question in the discussion surrounding Proposition 174 is, "Will the voucher plan cost or save money for California?" The answer is "Yes." In large measure, it depends heavily upon the assumptions that are made about (1) "consumer" behavior, in other words, how many students will choose "scholarship" schools, (2) implementing steps to be taken by the legislature, and (3) state government's priorities, in other words, whether or not to return "savings" to taxpayers or reinvest them in government services.

Let us examine first the more straightforward question of *capital outlay*, funding for school facilities construction. Then we will address the more complicated issue of *operating costs*, the funding of recurring day-to-day school activities.

Capital Outlay Costs

California currently has no state financing provisions for public or private school construction. Over the past fifteen years, state financial contributions to school construction have resulted from the sale of voter approved, state backed bonds. The supply of these funds is now exhausted and no statewide ballot measures to sell more bonds are scheduled to come before the public in the immediate future. In addition, the state currently is bonded to capacity. The current state school aid building program is due to expire and no replacement mechanism is yet in place.

By a complicated set of procedures, local school districts can seek voter approval for constructing new buildings. Also, local school boards can impose fees on home construction, proceeds of which can be used to construct school buildings. However, California's depressed economy has dampened new home construction, and builder fees are not currently a major source of school construction revenue.

Despite such complexity and uncertainty, the voucher plan, if enacted, almost assuredly saves California school construction money. Currently, the state faces an approximate $10 billion classroom construction backlog. This has been triggered by massive public school enrollment increases that have occurred over the past decade. California's school systems simply do not now have adequate room to accommodate the large influx of new students. If enrollments continue to increase, as projected currently, then the cost of facilities might be higher yet.

Consequently, the voucher plan is likely to reduce the state's and local school districts' construction expense exposure. Private providers, voucher-redeeming schools, will simply have to obtain facilities from among the existing building stocks or otherwise arrange for facilities to be built. As mentioned above, they could cover or defray these costs from the per pupil $2,500 vouchers. However under such a scenario, the public almost assuredly saves money that otherwise would have to be generated to construct public schools. The difficulty is that there is virtually no way to estimate how much. The amount of cost savings is extremely difficult to project because of all the uncertainties. The number of student transfers to private schools, the locations of expanded or new private schools, and the existing capacity of public schools all impact the amount of cost savings which may be realized.

Operating Costs

The answer to whether or not the voucher plan saves or costs California state government money depends crucially upon the assumptions made about parent responses to the availability of school choice and state government's implementing decisions.

PACE's assumptions for purposes of analysis are as follows:

- Initial dollar value of individual vouchers will average $2,500. (The legislature will not opt for a higher voucher amount or separately to fund added services (e.g., transport) or construction costs for scholarship redeeming schools.)

- Virtually all eligible private school students will choose eventually to attend scholarship redeeming schools.

- Administrative costs of a voucher plan, relative to the approximate $26 billion total amount now spent by the state on public education services, will be minimal.

- Total enrollments (for the total of public and private school students) will grow an average of four percent a year..

- Inflation will increase at three percent a year.

- State overall economic conditions will not change dramatically.

Principal variables which will establish the range of possible voucher plan financial costs or savings to the state are:

- Proportions of public and private school students choosing to attend scholarship redeeming schools.

- State government decisions regarding public school per pupil base revenues

State Exposure to Added Costs: Absorbing Existing Private School Enrollees

Assume, for analytic purposes only, that no currently enrolled public school students choose to transfer to scholarship redeeming schools. Under this scenario, the state would be exposed to a range of added costs for whatever proportion of currently enrolled private school students chooses to transfer to scholarship redeeming schools. This portion of the analysis focuses on the prospect of added costs to the state. A subsequent section will examine prospective "savings" to the state from public school transfers.

California private schools currently enroll slightly more than a half million students (540,000)[5]. The bulk of these, approximately 80 percent, are not eligible under the voucher plan for a state-financed "scholarship" until 1995. Thus, they pose no immediate financial burden to the state if the voucher plan is enacted in November. However, approximately 124,000 of today's private school students would be immediately eligible for state-financed "scholarships," or would be eligible as soon as the legislature forges an implementation plan. (These are students who enrolled in private schools after October 1991.)

Their schooling currently is paid for privately. Thus, to give these students a voucher would be an added expense to the state. How much? Assume that there are 120,00 immediate voucher eligible students. If all of them chose to enter "scholarship" schools, an unlikely scenario, then the added cost to the state would be $310 million. More realistically, if 100,000 (81 percent) of them chose to attend a scholarship redeeming school, added state costs would be $250 million.

By 1995, all remaining private school students become eligible for "scholarships." This is an additional 416,000 enrollees. If all of them chose to redeem vouchers, the state's added cost exposure would be $1.04 billion. If, more realistically, we assume 80 percent (332,000) of these choose scholarship redeeming schools, then the potential added costs to the state, at $2,500 each, is $830 million.

Adding $830 million to the $250 million (for 80% of private, immediately eligible school students), places the state's prospective expense exposure at $1.08 billion.

A reader should keep in mind, however, that Proposition 174 is effectively an entitlement plan whereby all current and future private school students are eligible for public subsidy. Should all 540,000 current private school students eventually take advantage of this entitlement, the state's potential cost exposure in current dollars is $ 1.35 billion. Obviously, if lower percentages transfer, the state's prospective exposure is lower.

[5]This figure is the State Department of Education's estimate of the number of students currently enrolled in private schools which exceed the Proposition 174 limit of at least 25 enrollees.

Proposition 174 Costs Worksheet # 1

Private and Parochial School Estimated State Absorption Costs

Total California Private and Parochial School Enrollments	540,000
Students immediately eligible for "Scholarships"	124,000
PACE assumed number of students who will transfer	100,000
State annual voucher costs per transferee	$2,500
Total estimated state costs for immediately eligible transfers	$250,000,000
Private and parochial school enrollees eligible in 1995	416,000
PACE assumed number of 1995 transfer students	332,000
State annual voucher costs per transferee	$2,500
Total estimated state costs for 1995 eligible transfers	$830,000,000
Total estimated state costs for immediate and 1996 transfers	**$1.08 billion**

Prospective State Savings: Public School Transfers to Scholarship Schools

There is a potential savings to the state for every public school student who transfers to a scholarship redeeming school. Assuming that the voucher is $2,500 per pupil, the state will save the difference between this amount and what it will constitutionally be required to allocate for each public school pupil. PACE estimates the potential computational saving as $1,250 per transfer from public schools.

This "saving" is computed in the following manner. For each public school pupil transferring to a "scholarship" school, the state assumes the specified $2,500 costs of the voucher. Thereafter, there is not an automatic $2,500 savings from the remainder of the Proposition 174 specified computation of $5,000 per public school pupil.

Why not? Because $400 of the $2,500 amount is contributed by the federal government and is not available as a savings to the state. An additional $450 is state categorical aid which is not distributed on a per capita pupil basis to school districts. Rather, it is distributed in keeping with the characteristics of specified categories of students, such as those who are handicapped. (Proposition 174 leaves to the legislature's discretion whether or not these state funds for special purposes will be added to the value of the voucher.) Another $400 is generated by local school districts themselves through foundation grants, parents' contributions, and the

What Happens in a Local School District if Proposition 174 is Enacted?

Determining prospective savings or added costs to the state treasury does not adequately explain revenue dynamics in a local school district. This is because what a California public school district receives and is permitted to spend per pupil is a function of a crazy quilt pattern of intertwined statutes and constitutional provisions which are difficult to disentangle. This section attempts to dissect these interrelated features and arrive at a conclusion regarding the possible effects of Proposition 174 upon local school district financing.

As a consequence of the previously-mentioned *Serrano* decision, Proposition 13, and state school financing statutes, the average California public school pupil has a state-specified revenue limit of $3,200[6]. Local school districts, on average, are restricted and cannot spend more per pupil in local property tax monies and state equalization aid than this amount.[7]

Thus, if (1) local property tax proceeds continue to flow to school districts as is now the case, and (2) a local public school district has fewer students because of transfers out to scholarship redeeming schools, then local property tax proceeds continue to be available in the school district to subsidize a larger and larger portion of the revenue limit amount for each remaining public school student.

If public school transfers increase, assessed value of property escalates, or if both occur, then locally generated property tax revenues become an increasing proportion of state basic aid. Under these scenarios, and assuming the legislature does not elevate the "base revenue limit" per public school pupil, then the state begins to save additional money because the state's required "match" declines as the local share increases.

The following hypothetical example illustrates the dynamic by which local property tax proceeds can come to cover a growing amount of the costs of public schooling.

Imagine an average spending ($3,200 per pupil base revenue limit amount) public school district of 10,000 enrolled pupils. Funds from its revenue limit calculations would total $32 million. Approximately 40 percent of this total ($12.8 million) would be derived from taxes on local property. The remaining $19.2 million would be a subsidy of state funds. This equals a state equalization aid subsidy of $1920 per local student.

If this district lost half its pupils (5,000) to scholarship redeeming schools, its total revenue limit calculation would now be $16 million (5,000 multiplied by $3200). However, it would continue to collect $12.8 million in locally generated property

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[6] This is less than the $5.000 per pupil used as a base for calculating Proposition 174 vouchers because the latter amount contains federal funds, state categorical aid funds, child care monies and a host of other revenues that Proposition 174 specifies are to be calculated in the voucher base.

[7] Specified funds can be spent on top of this "Base Revenue Limit". These include monies for handicapped children, federal aid, etc.

rental or sale of property. These funds do not automatically revert to the state as savings.

One way of examining potential savings is to look at the current breakdown of funds. This analysis is one of several possible scenarios. The result of this analysis is that there is a potential state "savings" of $1,250 for each public school student transferring to "scholarship" schools. The ultimate disposition of such "savings" is left to the discretion of the legislature and governor.

Proposition 174 Cost Worksheet #2

Estimating State Government "Savings" From Public School Transfers to "Scholarship" Schools

Total current spending from Proposition 174 specified sources	$26 billion
Current number of public school enrollees	5.2 million
Total spending per public school enrollee	$5,000
Proposition 174 voucher value (1994) (Specified as half per public school pupil spending amount)	$2,500
Net computational savings per transferring public pupil ($5,000 minus $2,500 voucher= $2,500 minus $400 in local school district contributions (e.g., foundation grants and parents contributions), minus $450 in state categorical aid, minus $400 in federal funds, equals a state potential savings remainder of $1,250)	$1,250
Number of public school transfers needed for state to save $1.08 billion. (($1.08 billion divided by $1,250.)	864,000
Percent of current public school enrollees (864,000 divided by 5.2 million)	16.6%

taxes. The total state subsidy to the district would now be only $3.2 million. This equates to a state subsidy of $640 per student, or $1280 less than what the district received in per pupil state aid prior to the student transfers.

Public School Revenues Could Become Uneven

If a school district had high local property wealth (assessed valuation per pupil substantially in excess of the state average), and if a high number of its students transferred to scholarship redeeming schools, property tax revenues would soon cover or exceed the state specified "base revenue limit" for each student. At this point, under current law, the district's revenue limit ceases to be controlled by state statutes. The district, in other words, begins to control its own per pupil spending destiny. It could continue to rely upon its local property taxes and begin to spend more money per pupil than the base revenue limit specified.

Under the above scenario, if large numbers of districts became basic aid districts, California would revert to a pre-*Serrano* condition in which local property wealth was a major determinant of the amount per pupil a school district had available to spend. This link between local property wealth and available per pupil revenue was declared unconstitutional by the California Supreme Court in 1976. Since that time, California has been obligated to ensure that 95 percent of public school pupils fall within a relatively narrow revenue band.[8]

[8] This initial trial court decision in Serrano v. Priest decreed that property related revenue differences could not exceed $100 per pupil. Subsequent legal decisions have interpreted this amount to be subject to inflation. Hence, it is assumed that a per pupil revenue distribution of $300 would probably be found constitutional today. Ninety five percent of California's public school pupils now fall within this revenue constraint.

Financial Interactions with Proposition 98

Proposition 98 was a ballot initiative enacted by voters in 1989. It was intended by its professional educator sponsors to establish a spending floor for California public education. The constitutional provision specifies revenues per pupil and total state budget revenue amounts, which must be allocated for the support of public education, K-14.[9]

Proposition 174 specifies the voucher amount, $2,500 per pupil, as a credit against Proposition 98 mandated state school spending and simultaneously specifies that the state's pupil obligation be reduced by one for each scholarship student. Proposition 174 also specifies that the "savings" of $2,500 per pupil, the difference between what is allocated to a scholarship student and the amount presumably spent on public school students, be credited as fulfilling Proposition 98 public school spending mandates.

The total computational loss to the Proposition 98 specified public school fund from these interactions is $5,000 per each scholarship pupil. Each time the state pays $2,500 for a scholarship, the public school fund, computed under Proposition 98, is reduced by that amount plus an additional $2,500.[10] It does not take long to see that, under such an arrangement, the revenue amount provided by Proposition 98 would soon reduce the state obligation to fund public schools. The larger the number of transfers to "scholarship" schools, the faster this Proposition 98 obligation to public school funding declines.

A reader should keep in mind that Proposition 98 is a spending minimum and the legislature and the governor not only are free to allocate larger amounts but in at least the two past years actually have done so.

If state officials chose strictly to adhere to interacting provisions of Propositions 174 and 98, one of the eventual consequences could be to reduce the scholarship's dollar value. This would happen if substantial numbers, say 40 percent, of public school students transfer to scholarship redeeming schools. In that the voucher is calculated as being at least half of what is allocated per pupil for public schools, as this latter amount declines, unless the state intervenes, scholarship amounts also decline.

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[9] Proposition 98 involves three fiscal"tests" by which the amount to be spent on public education is determined. Test one prescribes that a historically determined proportion of the state's general fund budget allocated to public education must be maintained. Test two asserts that a historically determined per pupil revenue figure, plus enrollment increases and inflation, must be maintained. Test three is a variant of test two and is applied under adverse state financial conditions.

[10] A reader should keep in mind that the Proposition 98 calculations are not necessarily state spending reality. Proposition 174 specified per public school pupil spending ($5,000), the amount of the voucher ($2,500), the state statutorily specified average Base Revenue Limit per pupil ($3,200) and the per pupil amounts computed under Proposition 98 are all different items.

Our analyses suggest that, assuming an approximate 20 percent shift of public school students to scholarship-redeeming schools, by the year 2000 the voucher will have dropped in value by about ten percent.[11]

[11] This projection assumes 1993 dollars. No adjustments are made in these analyses for inflation.

Tradeoffs Involved in State Intervention

The legislature and the governor have four fundamental choices, if public school student transfers to scholarship schools generate per pupil "savings." They can choose to (1) return "savings" to the education fund, thus sustaining or elevating the value of public and private school spending, (2) allocate added revenues to other public services, (3) rebate savings to taxpayers, or (4) some combination of all of these.

If the legislature and the governor chose to (1) enhance the falling scholarship amount, or (2) boost the base revenue limit for public school students (and thus boost the scholarship amount also), then savings generated by transferring students would be proportionally reduced as well.

Alternatively, the state can utilize transfer "savings" for other sectors of public activity, e.g., increased spending on prisons, transportation, welfare, etc. Thus, the state can completely capture prospective financial savings possible under Proposition 174. This action would result in a resource erosion for public schools, and scholarship redeeming schools. Of course, the legislature and the governor can also select a middle ground or blend between these three policy objectives.

Financial Consequences for Individual Schools

What will happen to a public school if some or all of its pupils transfer to scholarship schools?

The answer to this question will depend upon the legislature and the district's decision makers. However, the most reasonable scenario would seem to be that for each "lost" student, the district of which the public school is a part would lose $3,200 and whatever additional categorical aid revenue (both state and federal) for which a particular student was entitled. How much of this loss will be transmitted to the particular school by the district will depend upon district policies. However, it is difficult to imagine that individual schools will not be hit hard under such circumstances. Districts have few if any reserves with which to insulate their local schools from revenue losses.

What will happen to a private school which becomes a scholarship redeeming school?

It will become eligible to redeem vouchers which will average $2,500 per pupil. It is also free, under Proposition 174, to charge tuition in excess of this amount.

What will happen to a public school which becomes a scholarship redeeming school?

It will experience a reduction in its funding to the per pupil voucher amount.

What will happen to a private school which chooses not to redeem scholarships?

It will continue to operate as it does now.

Glossary of California School Finance Terminology

Assessed Valuation: The dollar value of land, homes, and businesses for property tax purposes. This dollar value is set by the county assessor.

Average Daily Attendance (ADA): The average number of students who actually are present during the school year. Students who are absent from school without an excuse are not counted in this calculation. State funding for school districts is currently based on this ADA figure.

Base Revenue Limit: The dollar amount a school district may receive per pupil from state and local sources for the purpose of operating its general education program. This amount is determined annually by the Legislature. Additional state revenue for special purposes (categorical aid) is not included in this base revenue limit.

Basic Aid: All public school districts receive Basic Aid. Basic Aid is the minimum amount per pupil ($120) for every public school student in grades K-12. This amount is guaranteed by the State Constitution. Basic Aid counts towards a school district's base revenue limit.

Capital Outlay: Money spent on the construction of new school facilities or for major remodeling of existing school facilities.

Categorical Aid: Money received by a school district from state or federal sources for special purposes. Examples of categorical aid include allocations for special education programs, bilingual education, and the School Improvement Program. Categorical aid which is restricted to its specific purpose, is granted in addition to the base revenue limit.

Lottery Revenue: A dollar amount per pupil provided to public school districts which is generated by proceeds from the California State Lottery. This currently amounts to three cents out of every public school per pupil revenue dollar.

Operating Costs: Per pupil costs which are associated with the general daily operation of schools. Costs for school construction or remodeling are <u>not</u> included as operating costs.

Proposition 98 A California constitutional amendment approved by the voters in 1989 intended to establish a minimum state spending level for K-14 public education.

Serrano v. Priest: A California Supreme Court decision which requires that local plus state spending per pupil for public education must be "equalized" (within a $100 band) for school districts throughout the state.