

# Analysis of the Revenue Impact of School District Consolidations in Tehama County

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Prepared By:

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VICE PRESIDENT

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## Executive Summary

Tehama County (County) is located approximately midway between Sacramento and the Oregon border. The County’s territory includes its western border, which touches Trinity and Mendocino County, and its eastern boundary, which reaches to Plumas County. It shares its northern border with Shasta County and its southern border with Butte and Glenn counties. The Tehama County Department of Education (TCDOE) provides support to the 18 school districts throughout this region, which serve approximately 11,000 students.

Tehama County School Districts	
Antelope Elementary	Lassen View Union Elementary
Bend Elementary	Los Molinos Unified
Corning Union Elementary	Manton Joint Union Elementary
Corning Union High School	Mineral Elementary
Elkins Elementary	Plum Valley Elementary
Evergreen Union Elementary	Red Bluff Joint Union High School
Flournoy Union Elementary	Red Bluff Union Elementary
Gerber Union Elementary	Reeds Creek Elementary
Kirkwood Elementary	Richfield Elementary

The TCDOE provides instructional programs, including community day school, child development, state preschool, special education programs, health services, and after-school programs. In addition, the TCDOE serves districts with the following:

- ✚ Curriculum and instructional leadership, including staff development, support for program improvement districts, and technology training and support
- ✚ Fiscal oversight and business services, including payroll, accounting and budget, purchasing, risk management and data processing
- ✚ Technology services and support
- ✚ Human resources, including credentialing services and other support

Recognizing the need to explore options to promote greater efficiencies in school district operations and to bring additional state aid into the region, the TCDOE contracted with School Services of California, Inc., (SSC) to analyze various options to consolidate the school districts within the County.

The analysis was designed to examine numerous district consolidations and unifications options and determine the additional state funding that would be provided under each combination of districts. Under current law, the state provides additional ongoing revenue limit aid to newly

reorganized school districts in recognition of the differences in personnel costs that usually exist among the districts included in a reorganization. The analysis is not intended to identify a specific consolidation proposal, but rather, to present the revenue impacts of many potential configurations.

The SSC analysis evaluated 23 separate district configurations, ranging from consolidations involving the 15 elementary districts, two high school districts, and one unified district within the county. Furthermore, the analysis included a configuration, which involved a single unified district of all districts in the County.

This analysis identifies (1) the size of the new district, as measured by average daily attendance (ADA), (2) the “blended” or cost neutral revenue limit, after adjusting for the statewide deficit factor, (3) the increase in state aid (total annual funding per ADA increase and percent change), and (4) the new revenue limit, after adjusting for the increase in state aid.

Some of the key findings are as follows:

- ✦ Creating a single unified district to serve all students in Tehama County would yield no increase in revenue limit funding.
- ✦ The unification of Red Bluff Joint Union High School District (JUHSD), Red Bluff Union Elementary School District (UESD), and eight other elementary districts—the largest unification option short of the all-county option—yields a 7.03% increase in revenues.
- ✦ Two options to expand Los Molinos Unified School District (USD), to include several adjacent elementary districts, yield revenue increases ranging from just over 4% to just under 6%.
- ✦ Of the 17 elementary consolidations analyzed, one combination yields an increase of 10% (the statutory limit). However, the effect of funding under the necessary small school (NSS) allowance complicates this analysis, and the net gain could be smaller, depending upon the number of ADA that would continue to receive funding under this option.
- ✦ The largest elementary district consolidation studied, includes: Corning UESD, Flourney UESD, Red Bluff UESD, and Gerber UESD, which would serve 4,285 ADA, but provide a revenue increase of only 1.65%, one of the smallest gains of the 17 consolidation options.

The figures in the Analysis and Findings Section summarize all of the computations for each of the 23 school district combinations.

It is important to note that, while the state provides additional ongoing revenue limit income to facilitate school district consolidations in recognition of the likelihood that there will be disparities in compensation levels among the staff of the different districts, state law does not

require that these funds be used solely for salary and benefit adjustments. Thus, local priorities will determine how these funds should be allocated.

Also, it is important to point out that this analysis did not examine the actual differences in salary and benefit costs should staff be moved to the highest compensation schedule among the districts involved in the consolidation or unification. The state provides additional funding based on differences in average compensation expenditures, but the actual expenditures following a district consolidation may be either higher or lower than the funding provided by the state, depending upon the distribution of staff on the schedule (i.e., the specific placement of staff on the schedule based on years of service and educational levels). This would be a subsequent step in the evaluation of district reorganization options within the County.

In addition, this analysis did not consider the impact of district consolidation on eligibility for NSS funding. Some school districts receive some or all of their general purpose aid based on the NSS funding schedule, rather than from the revenue limit. Eligibility for these funds could change, based on the number of ADA of a newly formed district, the size of the schools within the district, and the distances between schools.

Similarly, a more thorough review of other expenditure-related impacts should be completed before any final decision on district consolidation is made. This review could include an examination of opportunities for greater administrative efficiencies, reduction or reassignment of facilities currently serving administrative functions, transportation costs, maintenance and operations savings, and other district expenditures.

The review should also examine the impact of district consolidation on the resulting educational program. A consolidation may present opportunities to expand successful programs to serve more students and to assign staff to school sites that best meet their professional strengths.

Proposed district consolidations or unifications should also recognize the impact any changes might have on the broader community. State law recognizes “community identity” as an important factor in evaluating reorganization proposals, and any effort to reorganize districts within the County should take this into consideration as well.

In summary, this analysis identifies numerous district combinations that could be viable candidates for reorganization within the County on the basis of new revenue generation. Some combinations provide considerably more revenue than others and this analysis may assist educational leaders in the County to narrow the options to be considered. In the end, however, there will be many other factors that should influence any decision on district reorganization, with the revenue impacts being just one.

## Introduction and Background

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### Financial Incentives to Promote District Consolidation

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Since the 1950s, state policy makers have encouraged school district unification and consolidation, providing varying levels of increased state aid to facilitate these efforts. In 1950, state law provided five years of increased state funding for local transportation costs that stemmed from unification, including the cost of buses. Per pupil funding levels were also increased on a temporary basis to cover operational costs. As a result, between 1935 and 1994, the number of school districts in California decreased from 3,500 to 1,000.

With the pace of school district consolidations slowing, the Legislature in 1994 enacted Senate Bill (SB) 1537 (Chapter 1186/1994), which established the specific procedures for determining a newly reorganized district's blended revenue limit and its revenue limit adjustment (Appendix A and B). While the blended revenue limit is simply the weighted-average (as determined by ADA) revenue limit of the districts involved in the reorganization, the revenue limit adjustment is an increase to the blended revenue limit. Specifically, the revenue limit adjustment is computed based on the differences in average salaries and benefits for certificated and classified staff of the districts included in the reorganization, again weighted by the ADA of their district employer. The SB 1537 adjustment, unlike the transportation and operations adjustments adopted in the 1950s, is a permanent increase to the blended revenue limit.

Since the enactment of SB 1537, the number of school districts has continued to fall as elementary and high school districts join together to form unified districts and small elementary districts combine to form single larger elementary districts. Currently, there are 334 unified districts statewide, an increase of 29 districts since the enactment of SB 1537. During this same period, the number of high school districts has fallen from 106 to 83 and the number of elementary districts has fallen from 590 to 547. In total, there are 963 school districts statewide.

## Declining State Support for K-12 Education

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In recent years, state support of K-12 public education has been cut back severely as a result of the recession's effect on state General Fund tax collections. Prior to the onset of the recession, which began in December 2008, General Fund revenues in 2007-08 totaled \$101 billion. For 2011-12, General Fund revenues are forecast to be \$88 billion, a 13% drop from the level just four years ago.

Similarly, state support for K-12 education has declined at an unprecedented rate over the same period. For example, in 2007-08, the statewide average funded revenue limit for unified districts was \$5,821 per ADA compared to \$5,244 per ADA in 2011-12, a drop of 10%, or \$577 per ADA. Funding for categorical programs has been cut even more, with most programs suffering cuts reaching 20%.

The 2011-12 Budget Act provided K-12 education flat funding for 2011-12. While the January Governor's Budget indicated that education funding could be cut as much as \$349 per ADA if the temporary taxes were not extended, ultimately, the Legislature provided for flat funding even though there was no agreement to extend the taxes. An improving economy and a last minute act by the Legislature to add \$4 billion to the May Revision revenue forecast allowed the flat funding proposal to be enacted. However, K-12 education is vulnerable to midyear cuts of \$248 million to Home-to-School Transportation and \$1.5 billion to revenue limits, should tax revenues fall short of the budgeted level. The revenue limit cut translates into an average cut of \$250 per ADA for elementary districts, \$260 per ADA for unified districts, and \$300 per ADA for high school districts. Whether the automatic "trigger" reductions will be implemented will be determined in December 2011.

Because the broader state and national economies have shown little improvement, with the state unemployment rate hovering at 11.8% as of June 2011, the forecast is for weak revenue growth for the next several years. Consequently, school districts must plan for little, if any, new revenues from the state, even though local expenditures for employee compensation, benefits, materials and supplies, utilities, and other operational costs will continue to rise.

In this environment, a well designed district reorganization plan may be one of the few options available to local educational agencies (LEAs) to secure additional, ongoing revenues to support educational programs. In addition, consolidations offer opportunities to secure greater operational efficiencies, as some administrative activities may be shared or consolidated and duplicative functions eliminated. Taken together, the new revenues provided by the state and the operational savings that follow from economies of scale may provide the opportunity to maintain educational programs that might otherwise have to be eliminated due to budget cuts or to expand effective programs to serve more students.

## Tehama County Department of Education Study

It is in this context that the TCDOE requested SSC to analyze various configurations of school district consolidations and unifications within the County. Unlike prior studies conducted by SSC, which focused on a previously defined consolidation or unification proposal, this study sought to examine many different district configurations.

This study examines 25 specific school district consolidation or unification arrangements within the County. The new hypothetical arrangements were not constrained other than that the districts had to be contiguous. The study examined (1) elementary district combinations, (2) unification options involving Corning UHSD and Red Bluff JUHSD, and (3) the expansion of the Los Molinos USD.

The table below shows the three-letter symbol used to represent each school district in the analysis that follows.

**Figure 1: Tehama County School Districts**

District	Symbol
Antelope Elementary	AES
Bend Elementary	BES
Corning Union Elementary	CUE
Corning Union High School	CUH
Elkins Elementary	EES
Evergreen Union Elementary	EVE
Flournoy Union Elementary	FUE
Gerber Union Elementary	GUE
Kirkwood Elementary	KES
Lassen View Union Elementary	LVU
Los Molinos Unified	LMU
Manton Joint Union Elementary	MJU
Mineral Elementary	MES
Plum Valley Elementary	PVE
Red Bluff Joint Union High School	RBH
Red Bluff Union Elementary	RBE
Reeds Creek Elementary	RCE
Richfield Elementary	RES

To perform the analysis, we relied on data provided by TCDOE, including information for each school district regarding ADA, base revenue limits, salary and benefit costs for certificated employees, salary and benefit costs for classified employees, and the number of employees in each group. Figure 2 displays the baseline data provided by TCDOE.

**Figure 2: Baseline School District Data for Fiscal Year 2009-10**

Districts	Symbol	Base Revenue Limit/ADA	Deficited Base Revenue Limit*	ADA	Certificated Employees		Classified Employees	
					Total Salary & Benefits	FTE	Total Salary & Benefits	FTE
Antelope Elementary SD	AES	\$6,164.67	\$5,033.14	597.92	\$2,574,668	33.00	\$1,102,230	23.66
Bend Elementary SD	BES	\$7,132.91	\$5,823.66	65.01	\$282,195	4.24	\$167,881	4.13
Corning Union Elem SD	CUE	\$6,118.33	\$4,995.31	1,810.57	\$8,012,823	102.00	\$3,839,424	88.27
Corning Union High SD	CUH	\$7,430.58	\$6,066.70	1,004.84	\$5,009,353	63.88	\$2,362,338	49.28
Elkins Elementary SD**	EES	\$7,019.10	\$5,730.74	10.18	\$58,731	1.00	\$170,129	3.43
Evergreen Union Elem SD	EVE	\$6,155.64	\$5,025.77	946.35	\$4,095,705	55.30	\$1,770,782	46.65
Flournoy Union Elem SD**	FUE	\$7,147.87	\$5,835.88	35.09	\$150,219	2.00	\$118,291	3.34
Gerber Union Elem SD	GUE	\$6,086.06	\$4,968.96	392.64	\$1,793,666	21.50	\$817,333	18.17
Kirkwood Elem SD**	KES	\$6,942.84	\$5,668.48	81.79	\$212,405	4.00	\$166,481	4.25
Lassen View Union Elem SD	LVU	\$6,095.66	\$4,976.80	300.66	\$1,514,559	18.91	\$631,184	16.22
Los Molinos Unified**	LMU	\$6,820.72	\$5,568.78	548.76	\$2,798,082	38.20	\$1,218,919	31.26
Manton Joint Union Elem SD**	MJU	\$7,118.68	\$5,812.05	29.88	\$102,445	2.00	\$167,784	4.81
Mineral Elem SD**	MES	\$7,097.28	\$5,794.57	6.32	\$179,659	2.00	\$22,802	0.80
Plum Valley Elem SD**	PVE	\$7,167.86	\$5,852.20	18.06	\$95,687	1.80	\$163,709	4.84
Red Bluff Joint Union HSD	RBH	\$7,374.48	\$6,020.89	1,734.21	\$8,131,186	96.20	\$4,114,099	85.14
Red Bluff Union Elem SD	RBE	\$6,099.44	\$4,979.89	2,046.44	\$10,210,782	125.70	\$3,828,813	85.44
Reeds Creek Elem SD	RCE	\$6,107.95	\$4,986.84	139.99	\$558,760	8.00	\$266,699	6.00
Richfield Elem SD	RES	\$6,235.40	\$5,090.89	247.30	\$946,744	12.40	\$487,281	13.16

\* Deficited by 18.355%

\*\* District is funded through the NSS Allowance in 2009-10

Under current law, a newly reorganized district's revenue limit is based on the revenue limits of the districts included in the reorganization. Because the reorganization effort can take several years from initial planning to implementation, the revenue impact must be estimated from current data. Figure 2 summarizes the key data elements used to estimate the revenue impacts of the various consolidation options developed in this study.

The reorganization statutes specify that the data used to compute the new district's revenue limit shall be based on data two prior years from the effective date of implementation (Education Code [E.C.] 35735[a]). Therefore, the baseline data in Figure 2 would be applicable for a district reorganization that would become effective in 2011-12. Similarly, a 2012-13 implementation would rely on data from 2010-11. The baseline computations are then adjusted for statewide policy changes during the intervening years, including cost-of-living adjustments (COLAs), revenue limit deficits, and equalization aid, if provided.

Figure 2 shows that in 2009-10, the 18 school districts in the County range in size from Mineral ESD with six ADA to Red Bluff Elementary School District with 2,046 ADA.

*Tehama County School Districts*



**Tehama County Area Schools**

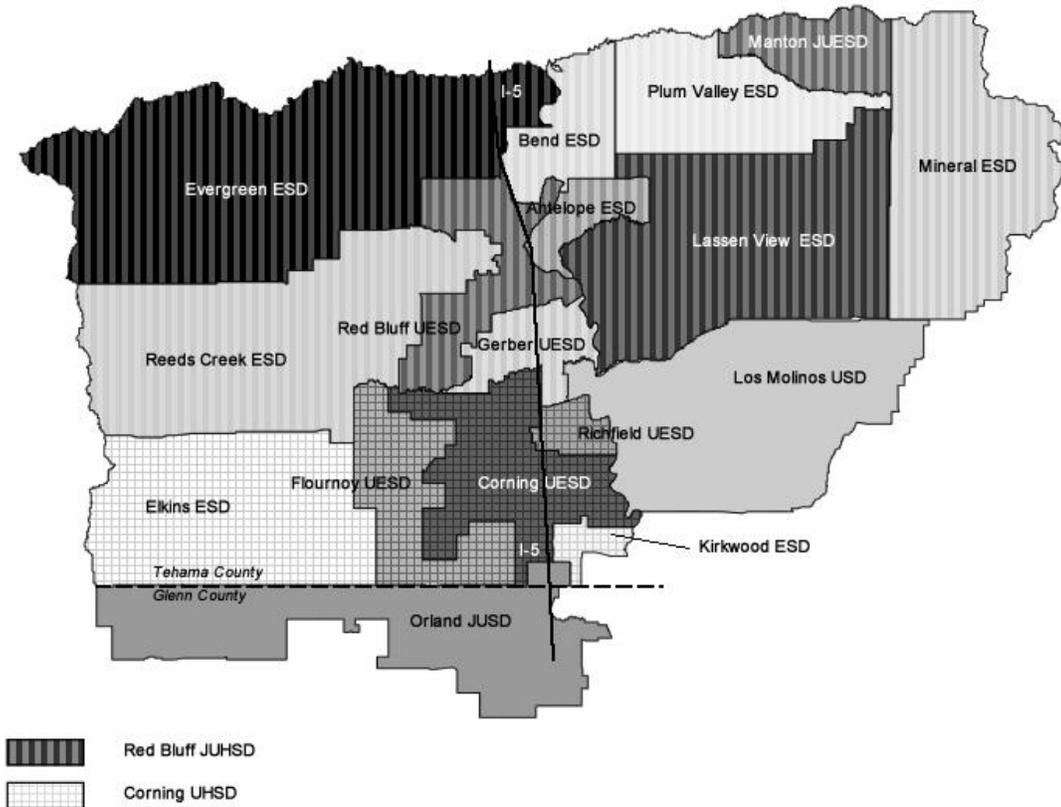


Figure 2 also displays the funded base revenue limits for the districts in 2009-10. It is important to note that in recent years, state support for K-12 education has actually declined on a per ADA basis, as revenue shortfalls have forced reductions in all state programs. For K-12 school districts, commencing in 2008-09, deficits have again been imposed on revenue limits. In that year, the Legislature imposed a deficit factor of 7.844%. For 2009-10, the deficit factor was increased to 18.355%, resulting in the cumulative loss of COLAs for both years (5.66% for 2008-09 and 4.25% for 2009-10) and real cuts to the revenue limit for both years, as well (2.315% in 2008-09 and 7.936% for 2009-10). The deficit factor dropped slightly to 17.963% for 2010-11 and then increased to 19.754% for 2011-12.

Finally, Figure 2 displays the total salary and benefit expenditures for both certificated and classified full-time equivalents (FTEs). These expenditures and position totals correspond roughly with the size of the district as measured by ADA.

## Analysis and Findings

This section presents the revenue impacts of consolidating various school districts within the County. The analysis follows current law provisions governing the recalculation of the revenue limit, utilizing data provided by TCDOE for 2009-10. In total, the revenue impacts for 23 district combinations were computed.

The district combinations are presented in five tables: (1) elementary combinations—west Tehama County, (2) elementary combinations—central Tehama County, (3) elementary combinations—east Tehama County (4) new and existing unification options, and (5) combinations with necessary small schools.

Each of the five figures display the following characteristics associated with the consolidation of districts in the County:

- ✚ The ADA of the new district
- ✚ The blended base revenue limit
- ✚ The increase in state funding (total increase, per ADA increase and percent change)
- ✚ The resulting new base revenue limit

**ADA of New District**—The ADA of the new district is the sum of the 2009-10 Second Principal Apportionment (P-2) ADA for each district in the consolidation.

**Blended Base Revenue Limit**—The blended base revenue limit is a function of the base revenue limits of all districts in the consolidation. The base revenue limits are weighted by ADA to ensure that there is no financial advantage due to a member of the consolidation possessing a high base revenue limit. Please note that the blended base revenue limit has been adjusted to reflect the 18.355% deficit factor imposed in 2009-10. In other words, these figures represent the funding level that would have been received by the proposed districts, after taking into account the cut in K-12 general apportionment aid imposed by the Legislature.

**State Funded Increase to Level-Up Salaries**—To address the salary and benefit cost difference among the districts in the consolidation, current law specifically provides an extra increment of funding in order to facilitate the combinations of staff onto a single salary schedule. This adjustment is based on average compensation levels for certificated and classified personnel and weighted on the basis of the ADA of the districts involved in the consolidations (Note: Current law does not require that these additional funds be used solely for salary and benefit cost adjustments).

**New Base Revenue Limit**—The new base revenue limit is the sum of the blended revenue limit and the additional dollars from the state for salaries converted to a per ADA basis. Like the blended base revenue limit, this figure has been adjusted for the 18.355% deficit factor.

**Necessary Small School Funding**—Pursuant to E.C. 42280, et seq., only districts with 2,500 or fewer ADA are eligible for NSS funding. Therefore, if school districts that currently receive funding based on the NSS formula are combined into a district whose ADA exceeds 2,500, the benefit of the NSS funding adjustment would be lost. Six of the 23 combinations analyzed for the Tehama County study exceed this ADA criterion. However, in these cases, the NSS ADA constitutes only a small portion of the total ADA of the proposed district configuration. In two cases, the NSS ADA accounts for about 4% of the total ADA, and in three cases it represents about 1% of the total. In the final configuration exceeding 2,500 ADA, the districts involved do not receive any NSS funding.

In addition to the criterion of district size, current law also limits eligibility for NSS based on the size of the schools within the district and the proximity of district schools to each other. These other criteria would have to be examined to determine if specific district configurations would disallow funding under the NSS formulas.

## Elementary Combinations

Figure 4 displays four combinations of elementary school districts in the western territory of Tehama County. These combinations range from 45 ADA for Elkins Elementary and Flournoy Elementary to 1,151 ADA for Evergreen Elementary, Bend Elementary, and Reeds Creek Elementary. One combination provides an increase of just 5%. The remaining three combinations yield increases less than 1.5%.

**Figure 4: Elementary Consolidations—West Tehama County**

Districts in Consolidation	Size/ ADA	Blended Base Revenue Limit*	State Funded Increase			New Base Revenue Limit *	Total Revenue Limit Funding*
			Marginal Increase	Per ADA	% Change		
EES** + FUE**	45	\$5,812.24	\$13,372.27	\$295.39	5.08%	\$6,107.63	\$276,492.22
EVE + BES	1,011	\$5,077.06	\$25,990.61	\$25.70	0.51%	\$5,102.76	\$5,160,726.63
BES + EVE + PVE**	1,029	\$5,090.66	\$73,166.07	\$71.08	1.40%	\$5,161.73	\$5,313,592.81
EVE + BES + RCE	1,151	\$5,066.09	\$53,543.40	\$46.50	0.92%	\$5,112.60	\$5,886,386.55

\* Deficient by 18.355%

\*\* District is funded through the NSS Allowance in 2009-10

Figure 4 shows that the combination of Elkins Elementary and Flournoy Elementary yields an increase providing \$13,000 in new funds, which equates to a 5.08% increase, based on revenue limit funding. This translates to a \$295 per ADA revenue limit adjustment and serves 45 ADA of the two elementary districts. However, both districts maintain a single school site and are also funded based on the NSS allowance. Therefore, the boost to the revenue limit may not be sufficient to generate more state aid than is currently provided under the special allowance.

The three larger district combinations—Evergreen Elementary with Bend Elementary (1,011 ADA), Evergreen Elementary with Bend Elementary and Plum Valley Elementary (1,029 ADA), and Evergreen Elementary with Bend Elementary and Reeds Creek Elementary (1,151 ADA)—yield the smallest increase in level-up funding of the five options studied. Evergreen Elementary combined with Bend Elementary and Plum Valley results in a 1.40% revenue limit gain, while Evergreen Elementary with Bend Elementary and the combination of Evergreen Elementary with Bend Elementary and Reeds Creek Elementary yields a less than 1% increase in state funding.

Figure 5 displays six combinations of elementary school districts within central Tehama County. These combinations range from 663 ADA for Antelope Elementary and Bend Elementary to 4,285 ADA for Corning Elementary, Flournoy Elementary, Red Buff Elementary and Gerber Elementary. None of the six combinations provides the maximum increase in state funding of

10%; however, one combination provides an increase of 4%. The remaining five combinations yield increases ranging from less than 1% to 1.8%.

**Figure 5: Elementary Consolidations—Central Tehama County**

Districts in Consolidation	Size/ ADA	Blended Base Revenue Limit*	State Funded Increase			New Base Revenue Limit *	Total Revenue Limit Funding*
			Marginal Increase	Per ADA	% Change		
AES + BES	663	\$5,110.67	\$59,544.88	\$89.82	1.76%	\$5,200.49	\$3,447,559.26
AES + PVE** + BES	681	\$5,130.33	\$146,685.86	\$215.40	4.20%	\$5,345.73	\$3,640,390.95
CUE + KES**	1,892	\$5,024.41	\$98,139.13	\$51.86	1.03%	\$5,076.27	\$9,606,123.64
RBE + BES	2,111	\$5,005.87	\$64,661.27	\$30.62	0.61%	\$5,036.49	\$10,634,299.25
GUE + RBE + AES	3,037	\$4,988.96	\$86,516.67	\$28.49	0.57%	\$5,017.45	\$15,237,990.09
CUE + FUE** + RBE + GUE	4,285	\$4,992.41	\$353,115.32	\$82.41	1.65%	\$5,074.83	\$21,744,311.15

\* Deficit by 18.355%

\*\* District is funded through the NSS Allowance in 2009-10

The combination of Antelope Elementary, Bend Elementary, and Plum Valley Elementary serves 681 ADA and yields an increase of 4.20%, or \$215 per ADA. This translates to an increase of state funds of \$147,000. While Plum Valley Elementary receives funding through the NSS allowance, this district would constitute only 3% of the overall ADA of the three-district consolidation, and therefore, would have only a minor affect on the overall level of new revenues.

The four larger district combinations—Corning Elementary with Kirkwood Elementary (1,892 ADA); Red Bluff Elementary with Bend Elementary (2,111 ADA); Gerber Elementary with Red Bluff Elementary and Antelope Elementary (3,037 ADA); and Corning Elementary with Red Bluff Elementary, Flournoy Elementary and Gerber Elementary (4,285 ADA)—yield the smallest increase in level-up funding of the six options studied. Corning Elementary combined with Kirkwood Elementary results in a 1.03% revenue limit gain, while Red Bluff Elementary with Bend Elementary and the combination of Gerber Elementary with Red Bluff Elementary and Antelope Elementary yields less than a 1% increase in state funding.

The combination of Corning Elementary with Red Bluff Elementary, Flournoy Elementary, and Gerber Elementary yields an increase of 1.65%, or \$82 per ADA. This translates to an increase in state funds of \$353,000 to serve 4,285 ADA.

In each of these cases, the NSS ADA involved in the consolidation would account for a very small portion of the total ADA of the proposed districts, and therefore, would not have a significant effect on the total funding of the proposed districts.

Figure 6 displays seven combinations of elementary school districts located in the eastern territory of Tehama County. These combinations range from 54 ADA for Manton Joint Union Elementary, Mineral Elementary, and Plum Valley Elementary to 1,066 ADA for Bend Elementary, Plum Valley Elementary, Manton Joint Union Elementary, Mineral Elementary, and Evergreen Elementary. Based on revenue limit funding, one of the seven combinations provides the maximum increase in state funding of 10%, and one combination generates nearly the maximum at 9.70%. The remaining five combinations provide increases ranging from 2% to 7%.

**Figure 6: Elementary Consolidations—East Tehama County**

Districts in Consolidation	Size/ ADA	Blended Base Revenue Limit*	State Funded Increase			New Base Revenue Limit *	Total Revenue Limit Funding*
			Marginal Increase	Per ADA	% Change		
MJU** + MES** + PVE**	54	\$5,823.38	\$11,534.79	\$212.58	3.65%	\$6,035.96	\$327,511.16
BES + PVE**	83	\$5,829.87	\$46,975.71	\$565.50	9.70%	\$6,395.36	\$531,262.85
BES + PVE** + MJU** + MES**	119	\$5,823.53	\$69,457.28	\$582.35	10.00%	\$6,405.89	\$764,030.07
MJU** + MES** + PVE** + LVU	355	\$5,106.23	\$129,754.55	\$365.59	7.16%	\$5,471.81	\$1,942,056.09
BES + LVU	366	\$5,127.36	\$46,930.87	\$128.34	2.50%	\$5,255.70	\$1,921,852.46
AES + LVU	899	\$5,014.29	\$158,032.05	\$175.87	3.51%	\$5,190.16	\$4,663,775.17
BES + PVE** + MJU** + MES** + EVE	1,066	\$5,115.06	\$128,799.10	\$120.87	2.36%	\$5,235.93	\$5,579,511.48

\* Deficit by 18.355%

\*\* District is funded through the NSS Allowance in 2009-10

Figure 6 shows the combination of Bend Elementary, Plum Valley Elementary, Manton Joint Union Elementary, and Mineral Elementary yields the maximum 10% increase in state funding under the revenue limit. This district would serve 119 ADA and result in an increase of \$69,000, or \$582 per ADA. Under this combination, the NSS ADA of Plum Valley Elementary, Manton Joint Union Elementary, and Mineral Elementary account for about 45% of the total ADA, which would likely lower the net gain under this configuration if funding continues through the special allowance.

Also, the combination of Bend Elementary and Plum Valley Elementary yields a 9.7% increase in state funding. This district would serve 83 ADA and generate an increase of \$47,000, or \$566 per ADA. In this configuration, Plum Valley Elementary, which receives funding under the NSS

adjustment, accounts for about one-fifth of the total ADA; therefore, the net gain under this configuration may be slightly less than 9.7%, if the Plum Valley Elementary ADA continues to be funded through the optional formula.

The last combination netting just above a 7% increase includes Manton Joint Union Elementary, Mineral Elementary, Plum Valley Elementary, and Lassen View Union Elementary. The district would serve 355 ADA and experience an increase of \$130,000, or \$366 per ADA. The NSS ADA under this combination accounts for only about 15% of the total ADA, and therefore, would not significantly affect the overall gain.

The remaining district combinations generate small increases in state revenue ranging from 2% to 4%, or per ADA increases from \$121 to \$213.

## Unification Options

Figure 7 displays reorganization options that involve (1) the expansion of the only unified district in the county, Los Molinos USD, and (2) unifications involving Red Bluff JUHSD and Corning UHSD with various feeder elementary districts. The table includes the results for the combination of a one single unified school district in Tehama County.

Two consolidations involving Red Bluff JUHSD with Red Bluff UESD were examined. The first involves 5,331 ADA and results in an increase in state funding of 5.19%. The second and larger of the two, results in a district of 6,271 ADA and yields an increase of 7.03%. The consolidations involving Corning UHSD and Corning UESD along with four other elementary districts, generated a state funding increase of 3.71%. The two consolidations expanding Los Molinos USD result in state-funded increases ranging from just under 6% for the largest combination involving 1,447 ADA to just over 4% for the Los Molinos USD, Lassen View UESD, and Antelope ESD combination. The combination of a single unified district in Tehama, which would serve all 10,016 ADA, provided no increase in state funding.

**Figure 7: Existing and New Unifications**

Districts Combinations	Size/ ADA	Blended Base Revenue Limit *	State Funded Increase			New Base Revenue Limit *	Total Revenue Limit Funding*
			Marginal Increase	Per ADA	% Change		
LVU + LMU**	849	\$5,359.24	\$215,151.73	\$253.29	4.73%	\$5,612.53	\$4,767,398.88
LMU** + LVU + AES	1,447	\$5,224.53	\$444,356.82	\$307.02	5.88%	\$5,531.54	\$8,006,021.92
CUE + CUH + KES** + RES + EES** + FUE**	3,190	\$5,369.08	\$636,131.24	\$199.43	3.71%	\$5,568.51	\$17,762,273.23
RBH + RBE + RCE + GUE + AES + LVU + BES + MJU** + PVE** + MES**	5,331	\$5,342.58	\$1,478,781.45	\$277.39	5.19%	\$5,619.96	\$29,960,754.90
RBH + RBE + RCE + GUE + AES + LVU + BES + MJU + PVE** + EVE	6,271	\$5,294.31	\$2,332,727.40	\$371.98	7.03%	\$5,666.29	\$35,534,218.73
Single Unified District	10,016	\$5,333.48	\$0.00	\$0.00	0.00%	\$5,333.48	\$53,420,177.00

\* Deficient by 18.355%

\*\* District is funded through the NSS Allowance in 2009-10

### Expansion of Los Molinos Unified School District

Los Molinos USD has about 549 ADA, with just less than half funded under the NSS allowance. The largest expansion of Los Molinos Unified involved the County's eastern elementary districts of Lassen View UESD and centrally located Antelope ESD. The combination would serve 1,447 ADA and would generate increase in revenue limit income just below 6%, or \$307 per

ADA, resulting in a total funding increase of \$444,400. If the Los Molinos USD ADA that currently qualifies for NSS funding continues to be funded under this allowance, then the overall gain under the new district configuration would likely be less than 6%.

The second largest expansion of Los Molinos Unified combined the unified district with Lassen View UESD. The expanded district would serve 849 ADA, and would generate an increase of revenue limit income of about 4.7%, or \$253 per ADA, yielding a total funding increase of \$215,000. If the 255 ADA in Los Molinos USD continued to be funded under this adjustment, the overall gain would likely be slightly lower.

### **Newly Unified Districts**

The combination that yielded the largest new unified district involved Red Bluff JUHSD with Red Bluff UESD and eight other elementary districts. The proposed unification of Red Bluff JUHSD also included the two western elementary districts of Reeds Creek ESD and Evergreen UESD; the centrally located elementary districts of Gerber UESD and Antelope ESD; and the eastern elementary districts Lassen View UESD, Plum Valley ESD, and Manton JUESD. The combination would serve 6,271 ADA and would generate a state-funded increase in revenue limit income of just over 7%, or \$372 per ADA, resulting in a total funding increase of \$2.3 million. The effect of NSS ADA would be negligible, since it would account for less than 1% of the total ADA of the new district.

The next largest unified district also involved Red Bluff JUHSD with Red Bluff UESD. This combination is similar to the composition of schools in the previous combination; the only difference is that this combination includes the eastern district of Mineral ESD and excludes the western elementary district of Evergreen UESD. The combination would serve 5,331 ADA and would yield an increase in revenue limit funding of 5.19%, or \$277 per ADA. The total funding increase for this newly formed unified district is just under \$1.5 million. Similar to the previous combination, the effect of NSS ADA would be negligible.

The unified district combination involving Corning UHSD with Corning UESD is the third largest combination. The proposed unification of Corning also included the two western elementary districts of Elkins ESD and Fournoy UESD and the centrally located elementary districts of Kirkwood ESD and Richfield ESD. The combination would serve 3,190 ADA—with NSS ADA accounting for 127 of the total—and would generate an increase in revenue limit income of 3.71%, or just under \$200 per ADA, resulting in a total funding increase of \$636,000.

A single unified school district, which includes Red Bluff JUHSD, Corning UHSD, Los Molinos USD and all 15 elementary school districts in Tehama County, would serve 10,016 ADA. This combination would generate no revenue limit increase and no increase of ongoing funding for the new unified district.

## District Combinations Involving Necessary Small Schools

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Current law provides school districts the option to receive apportionment funding based on their per pupil revenue limit or the NSS allowance (E.C. 42280 et seq.). This provision recognizes that some very small schools must be operated, despite their small size, to serve students in remote locations far from other schools. These schools are funded on a classroom basis rather than the specific number of ADA at the school.

In order to be eligible for the NSS allowance, a district must (1) have less than 2,501 ADA, (2) operate an elementary school with fewer than 96 ADA and/or a high school with fewer than 286 ADA, and (3) meet the statutory requirements for distance between schools (E.C. 42283). Funding is provided based on either the number of (1) teachers (elementary schools) or certificated employees (high schools), or (2) ADA, whichever provides the lesser amount.

This funding option complicates the analysis of funding gains through district consolidations. The prior tables (Figures 4 through 7) display the new blended revenue limit and the funding gains, if any, for the various combinations of districts. These gains, however, are based on the assumption that the new district receives all its funding based on the newly computed blended revenue limit, including the level-up funding, and the ADA of all of the districts in the proposed consolidation. However, depending upon the particular circumstances, it could be fiscally advantageous for school sites that qualify for NSS funding to continue to receive funding under this option.

**Figure 8: District Consolidations Involving Necessary Small Schools**

Districts in Consolidation	ADA			NSS ADA % of Total
	Revenue Limit	NSS	Total	
<i>ELEMENTARY:</i>				
EES** + FUE**	0	45	45	100%
MJU** + MES** + PVE**	0	54	54	100%
BES + PVE**	65	18	83	22%
BES + PVE** + MJU** + MES**	65	54	119	45%
MJU** + MES** + PVE** + LVU	301	54	355	15%
AES + PVE** + BES	663	18	681	3%
BES + EVE + PVE**	1,011	18	1,029	2%
BES + PVE** + MJU** + MES** + EVE	1,012	54	1,066	5%
CUE + KES**	1,810	82	1,892	4%
CUE + FUE** + RBE + GUE	4,250	35	4,285	1%
<i>UNIFICATIONS:</i>				
LVU + LMU**	594	255	849	30%
LMU** + LVU + AES	1,192	255	1,447	18%
CUE + CUH + KES** + RES + EES** + FUE**	3,063	127	3,190	4%
RBH + RBE + RCE + GUE + AES + LVU + BES + MJU** + PVE** + MES**	5,277	54	5,331	1%
RBH + RBE + RCE + GUE + AES + LVU + BES + MJU** + PVE** + EVE	6,223	48	6,271	1%
Single Unified District**	9,580	436	10,016	4%

\*\*District is funded through the NSS allowance in 2009-10

Figure 8 displays all of the district combinations for which districts receive either some or all of their funding under the NSS allowance in 2009-10, the year for which all of the preceding analyses are based. The first ten combinations involve only elementary districts, while the final six combinations involve both elementary districts and either Los Molinos USD or Red Bluff JUHSD.

It is important to note that all but one of the elementary district combinations would continue to meet the maximum size criterion of fewer than 2,501 ADA; however, three district combinations that involve both elementary schools and high schools would exceed the maximum size criterion

(Note: The Legislature has enacted exemptions to these criteria, and eight school districts currently have statutory authorization to qualify for NSS funding even though they do not meet all of the eligibility criteria). In these cases, the financial advantage provided by the higher revenue limit through the level-up adjustment might not be sufficient to compensate for the loss of funding under the NSS allowance. Figure 9 displays the districts that receive funding under the NSS allowance, their total ADA, their NSS ADA, and their NSS ADA as a percentage of the total ADA.

**Figure 9: School District’s Necessary Small School ADA**

District	Total ADA	NSS ADA	Percentage Total
Elkins ESD	10	10	100.0%
Flournoy UESD	35	35	100.0%
Kirkwood ESD	82	82	100.0%
Los Molinos USD	549	255	46.4%
Manton JUESD	30	30	100.0%
Mineral ESD	6	6	100.0%
Plum Valley ESD	18	18	100.0%

Districts will have to determine on a case-by-case basis whether they will receive more funding under the newly computed revenue limit or under the NSS allowance. Assuming that the newly formed district’s revenue limit is higher than the revenue limit of each of the original districts, including the districts that received some or all of their funding from the NSS allowance, it will not always be the case that more state funding will be provided under the revenue limit. Of particular importance will be the specific number of ADA, or teachers, the qualifying school site maintains. For example, if the school site is funded based on the NSS funding schedule, it could receive more state funding under the NSS schedule if its ADA is at the low end of the ADA band, but might be better off if its ADA is at the top end of the band. An analysis of each specific option would have to be completed in order to determine which is most beneficial.

Figures 10 and 11 display the 2009-10 funding rates for necessary small elementary school and necessary small high schools, respectively.

**Figure 10: 2009-10 Necessary Small Elementary School Allowances**

Number of Teachers	ADA	Amount to be Computed
1	1-24.49	\$138,522
2	24.5-48.49	\$277,044
3	48.5-72.49	\$415,567
4	72.5-96.49	\$554,089

**Figure 11: 2009-10 Necessary Small High School Allowances**

Minimum Number of Certificated Employees	ADA	Amount to be Computed (per teacher)
2 or less	1-19	\$112,449
3	1-19	\$499,587
4	20-38	\$612,036
5	39-57	\$724,485
6	58-71	\$836,935
7	72-86	\$949,384
8	87-100	\$1,061,833
9	101-114	\$1,174,282
10	115-129	\$1,286,732
11	130-143	\$1,399,181
12	144-171	\$1,511,630
13	172-210	\$1,624,079
14	211-248	\$1,736,529
15	249-286	\$1,848,978

## Election Requirements

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In general, state law governing district reorganization requires that the reorganization proposal be submitted to a vote of the residents in the territory of the districts affected by the reorganization. Certain exceptions to the vote requirement are made for the transfer of uninhabited territory, provided the governing boards of the districts consent to the transfer (E.C. 35709).

For the majority of unifications and district consolidations an election is required (E.C. 35710). The Education Code specifies that upon receipt of a reorganization petition, the county committee on school district organization shall evaluate the proposal against the ten criteria listed in E.C. 35753 (e.g., district size, community identity, racial or ethnic discrimination or segregation, educational program, etc.). If the petition substantially meets these criteria, the county committee is to notify the county superintendent of schools, who in turn shall call an election in the territory of the districts as determined by the county committee.

After receiving the notification from the county committee, the county superintendent of schools has 35 days to call an election, which is to be conducted at the next available regular election (E.C. 35710.51).

State law, however, also grants the State Board of Education (SBE) broad waiver authority over non-apportionment related provisions of the Education Code, including sections governing the reorganization of school districts (E.C. 33051). In fact, state law directs the SBE to approve “any and all requests for waivers” except in those cases in which the board specifically finds any of the following:

- ✦ The educational needs of the pupils are not adequately addressed
- ✦ A program which includes a school site council would be affected and the school site council did not approve the request
- ✦ The appropriate councils or advisory committees did not have an adequate opportunity to review the request and the request does not include a written summary of the councils’ or advisory committees’ objections
- ✦ Pupil or school personnel protections are jeopardized
- ✦ Guarantees of parental involvement are jeopardized
- ✦ Substantial increases in state costs would occur

- ✦ The exclusive representative of employees was not a participant in the development of the waiver

Based on its authority under E.C. 33051, the SBE in recent years has granted several requests to waive the election requirements pertaining to school district reorganizations. According to the Department of Education staff, a key element in determining whether the request will be granted is the level of local opposition, if any, to the reorganization and request to waive the election requirement.

Staff indicate that it is not necessary that the waiver request be free of any local opposition in order to secure SBE approval. Instead, the SBE will weigh the local interests in moving forward with the reorganization against the need for an election. Supplemental materials to the waiver request could include the local districts' board agenda items discussing the waiver, minutes or transcripts of community meetings demonstrating support for the reorganization, and copies of media coverage concerning the proposal.

## State Board of Education's Ten Reorganization Criteria

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In addition to fiscal considerations, district reorganizations must also focus on the educational program, the integration of communities, facility requirements, and other considerations. State law assigns the responsibility for ensuring that the broad interests of the community are met to the local school boards, the county committee on district organization, the county superintendent of schools, and other local agencies. In addition, the State Board of Education (SBE) provides a crucial oversight role, reviewing the proposed reorganization against ten reorganization criteria specified by the Legislature (E.C.) 35753(a).

The SBE is authorized to approve a proposed reorganization, provided that the SBE finds that the proposal “substantially” meets the ten specified criteria. The board has broad discretion in determining whether each criterion is met. (Note: There are nine specified criteria, with the tenth being any other criterion deemed important and adopted by regulation by the board.)

The following are the SBE's ten reorganization criteria:

1. *Adequate District Size.* The reorganized districts will be adequate in terms of number of pupils enrolled.
2. *Community Identity.* The districts are each organized on the basis of a substantial community identity.
3. *Division of Property.* The proposal will result in an equitable division of property and facilities of the original district or districts.
4. *Racial or Ethnic Discrimination or Segregation.* The reorganization of the districts will preserve each affected district's ability to educate students in an integrated environment and will not promote racial or ethnic discrimination or segregation.
5. *State Costs.* Any increase in costs to the state as a result of the proposed reorganization will be insignificant and otherwise incidental to the reorganization.
6. *Educational Program.* The proposed reorganization will continue to promote sound education performance and will not significantly disrupt the educational programs in the districts affected by the proposed reorganization.
7. *School Facilities.* Any increase in school facilities costs, as a result of the proposed reorganization, will be insignificant and otherwise incidental to the reorganization.
8. *Property Values.* The proposed reorganization is primarily designed for purposes other than to significantly increase property values.

9. *Fiscal Management.* The proposed reorganization will continue to promote sound fiscal management and not cause a substantial negative effect on the fiscal status of the proposed district or any existing district affected by the proposed reorganization.

10. *SBE's Criteria.* Any other criteria that the SBE may, by regulation, prescribe.

State law recognizes that not all of the criteria may be applicable to the proposed reorganization or that the criteria may be met as a practical matter. In addition, local circumstances prevailing at the time of the proposed reorganization may result in “an exceptional situation sufficient to justify approval of the proposals” by the SBE (E.C. 35753[b]). Therefore, a reorganization proposal may ultimately secure approval of the SBE even if it does not meet threshold of the literal requirements of E.C. 35753(a).

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## Tehama County Enrollment

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According to the “2010 California Public K-12 Graded Enrollment Projections Tables” published by the Department of Finance (DOF), the County has experienced a year-to-year enrollment decline averaging of less than 1% from 2005 to 2010. The DOF data excludes charter schools.

The DOF also reported that it expects K-12 enrollment in the County to grow by an average annual rate of 2.0% by the end of fiscal year 2013-14. This increase is favorable when compared to the projected annual increase in statewide K-12 enrollment of 0.22% for the same period.

The County is surrounded by Shasta County on its northern side, Trinity and Mendocino County on its western side, with Glenn County and Butte County completing the southern side. Plumas County sits on the County’s Eastern side. Tehama is surrounded by both growing and declining-enrollment counties. The DOF projections indicate that between 2010-11 and 2013-14, K-12 enrollment in Plumas County is expected to decline 5.5%, followed by Mendocino County at 1.22%. The enrollments in Butte County, Glenn County, and Trinity County are expected to increase by around 2%.

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## Next Steps

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The focus of this study was to evaluate many combinations of school districts within the County and to compute the potential increase in ongoing, general purpose funding for each combination. Under current law, a newly reorganized school district composed of several previously existing school districts would have its revenue limit based on (1) the weighted average of the revenue limits of the existing districts, plus (2) an adjustment based on the differences in average salary and benefit costs of the districts' employees. It is this second adjustment that provides new funds to the district.

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## Other Factors to Consider

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In addition to the increase in revenues that could be available under certain district consolidation options, there are other considerations that should influence any reorganization proposal. Chief among these considerations would be the educational program to be offered to students in the newly constituted district. District consolidations may present opportunities to expand effective educational programs to more students, as coordination and communication improves under a single district administration. In addition, a consolidation of several districts may provide greater opportunities for staff to be assigned to school sites that best meet their professional strengths and take full advantage of their areas of expertise.

Bringing together several school districts into a single district should also consider the interests of the community at large. Are there certain geographic, land use, cultural, or other factors that might shape the community? Are there historical factors that need to be considered that would help build community identity? These and other nonfiscal considerations should be a part of the discussions to reorganize the districts within the County.

Members of the community and education leaders throughout the County will have to engage these issues as part of any initial exploration of district consolidation options. The ten criteria for evaluating reorganization proposals specified in the Education Code provides a good starting point for this discussion.

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## Expenditure Issues

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Once the local community or communities have narrowed the options to a specific consolidation proposal or proposals, a more detailed analysis of the fiscal impact would be in order. This analysis would examine the budgets of the specific districts involved in the consolidation. A detailed expenditure analysis would include the cost of moving the existing staff to a single salary schedule, although current law does not require that this necessarily follow a district reorganization. The highest salary schedule among the districts involved in the consolidation is

often used as the schedule for the newly formed district. Employees whose current compensation exceeds the compensation specified on the schedule could see their compensation frozen, while others could experience an increase if their current compensation falls short of the amount paid under the more generous schedule.

The expenditure analysis could also examine the potential for administrative savings following a consolidation, as some functions may be duplicative after the merging of the districts. Opportunities to achieve administrative savings, however, will be dependent upon the staffing levels prior to the consolidation and how efficiently the districts had been operating. In some cases, administrative functions could be understaffed prior to a consolidation, and the consolidation could provide opportunities for improved oversight and administration, rather than expenditure reductions.

It is important to note that E.C. 45121 provides for certain protections for classified employees. Specifically, nonmanagement classified employees are provided a two-year guarantee of continued employment at the same salary and benefit level for school district unifications. Therefore, a new unified district would not be able to eliminate classified positions to achieve savings during the initial years of the reorganization; however, options for long-term savings should not be overlooked. This employment protection, however, does not apply to district consolidations that involve the same type of district (e.g., elementary districts alone).

Like the potential to achieve administrative savings related to personnel expenditures, a district consolidation could present opportunities to reduce facility costs or reassign certain facilities for other purposes, including instructional services. These options would be dependent upon the location, age, and current configuration of the administrative structures.

Finally, the expenditure analysis could include a detailed forecast of enrollment for the reorganized district. These forecasts would assist administrators in planning for the number of students that the district would have to serve and the expected level of future revenues that would be available to meet the staffing and facility costs.

## Summary

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In summary, the next steps in the consideration of consolidating school districts within the County would be (1) to involve the broader community in the discussions of district consolidation, (2) specifically define one or several consolidation options, taking into consideration the revenue impacts identified in this report, as well as other criteria deemed important to the community, and (3) evaluate the potential impact on expenditures within the proposed district, including personnel costs, facilities, transportation, and other expenditures.

## Appendix A: Fiscal Implications of School District Reorganization

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*Note: This Appendix is an updated version of a chapter in the California Department of Education's "School District Reorganization Handbook," originally written by Paul Goldfinger.*

### Introduction

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Given the state's troubled fiscal outlook, many school administrators are exploring every possible option for reducing expenditures and increasing revenues. One option that holds the potential of accomplishing both goals—reducing duplicative expenditures and increasing state aid—is school district consolidation. By consolidating school districts, it is often possible to reduce expenditures through the elimination of duplicative services. Also, state law provides an increase in total revenue limit for a district that has consolidated in recognition of the need to have a common salary and benefit schedule for all of the employees of the new district.

#### OVERVIEW OF REVENUE LIMIT CHANGES

When districts reorganize—whether through unification, unionization, annexation, or transfer of territory<sup>1</sup>—the revenue limit for the newly reorganized district is calculated in two steps: (1) the blending of base revenue limits of the component districts and (2) the calculation of an adjustment for salary and benefit differentials. The blending of the base revenue limits of the former component districts uses a weighted average approach that is revenue neutral and does not yield any increased funding to the new district.

It is only the adjustment for salary and benefit differentials that yields new revenues. The calculation of this adjustment starts with the determination of the average cost of certificated salaries and benefits per full-time equivalent employee (FTE) and then identifies the cost of increasing the certificated employees in the component districts with low average costs up to the level of the district with the highest average costs. A second, parallel calculation is performed for classified employees. The sum of these changes for both certificated and classified employees, divided by the total ADA for the newly reorganized district, is added to the new district's base revenue limit.

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<sup>1</sup> Unification is the formation of a new K-12 district from elementary and high school districts, while unionization is the formation of a new district from districts of the same level—elementary, high school, or unified. Annexation is when one district is merged into another district that continues to operate. The impact of the transfer of a 7<sup>th</sup>/8<sup>th</sup>-grade program from an elementary district to a high school district (or vice versa) is covered through a different provision of law, and is discussed separately later in this chapter.

This revenue limit increase for salaries and benefits is the only increased funding for a newly reorganized district. Special education funding is now calculated based only on the ADA for a special education local plan area (SELPA) as a whole, not for an individual district, and is not affected by district reorganization.<sup>2</sup> And all other state categorical funding for a newly reorganized district is calculated on a revenue neutral basis. For those categorical programs that are funded on a per-pupil (or per-ADA) basis, such as instructional materials, the funding for a newly reorganized district is based upon the sum of the enrollment from its component districts. And for those categorical programs where funding in one year is based on the funding in the prior year, such as state aid for transportation, the funding for a newly reorganized district is simply based on the sum of the funding for the component districts.

### REVENUE LIMIT INCREASE VERSUS COST INCREASE

It is important to understand that the calculation of the revenue limit increase for salaries and benefits is not directly related to the actual cost increase that a newly reorganized district may incur when moving to a common salary and benefit schedule—for two reasons. First, a reorganized district may negotiate any salary schedule and benefit package; that is, there is no legal requirement that the newly reorganized district use the highest salary schedule of its component districts, even though the salary/benefit add-on is based on the cost to “level up” to the highest-cost agency. And, second, the additional revenue limit funding is based on a calculation involving the average costs per FTE of salaries and benefits for all certificated employees—and all classified employees—not on the actual cost of shifting employees to a common salary and benefit schedule.

To make this latter point clear, consider two examples involving the unification of two school districts. As a first example, if both districts had identical salary and benefit schedules, but one district had more senior staff than the other, the district with more senior staff would have a higher average cost for salaries and benefits per FTE. Even though there would be no cost of moving to a common salary schedule, the revenue limit calculation would, nevertheless, result in additional funding because of the difference in average costs.

As a second example, suppose that these two districts had different salary and benefit schedules, but the district with the lower schedule had a higher level of seniority and its average cost per FTE turned out to be exactly the same as the other district. Although there would be a cost of moving the lower-paid employees to the higher salary schedule, the revenue limit calculation would result in no additional funding for salaries and benefits, simply because the average cost per FTE was identical. Districts facing a scenario of similar costs per FTE—and which would therefore receive little extra funding from the revenue limit calculations—should consider delaying a reorganization until the difference in average costs per FTE is greater.

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<sup>2</sup> The only exception would be in the unusual case where a school district reorganization results in a change in SELPA configuration. But under state law, any SELPA reorganization must be fiscally neutral.

Although these two examples highlight the inconsistency between the revenue limit calculation and the cost of moving to a common salary and benefit schedule, as a practical matter the additional revenue limit funding is usually close to the amount needed to move all employees to the highest schedule.

Another point is that the calculation of the revised revenue limit is based on data for the component districts two years prior to the effective date of the reorganization. For example, for a reorganization that will become effective in 2011-12, the calculations shall be based upon revenue limits, ADA, and salary and benefit costs per FTE in 2009-10. The use of data two years prior to the effective date of the reorganization is intended to use “known” data and data that cannot be manipulated by making salary or benefit changes just before the effective date of the reorganization.

### BLENDED BASE REVENUE LIMIT

The first step in calculating the base revenue limit for the newly reorganized district is the calculation of the blended base revenue limit. In simplest terms, this calculation is equal to the total base revenue limit for all the component districts divided by the total ADA for the newly reorganized district.

### WEIGHTED AVERAGE CALCULATION

Example 1 is for a reorganization that becomes effective in 2011-12 and which uses 2009-10 data for the revenue limit calculation.

The steps used in the blending calculation using 2009-10 data are as follows:

**Step 1:** For each affected district, multiply the district’s 2009-10 base revenue limit by the number of 2009-10 ADA. If a district is wholly included in the newly reorganized district, then this calculation will be based on the district’s revenue limit ADA (i.e., the greater of current or prior-year ADA). If only a portion of a district is to be included in the reorganization, the law stipulates that the county superintendent is to make the determination of the number of ADA that will be included in the proposed school district. For instance, in Example 1, only part of the high school district is unifying with three of its feeder elementary districts and the balance of the high school district will continue to exist. As indicated in this example, 1,200 of the high school district’s 3,000 ADA will become part of the newly unified district, equal to 40% of the district’s ADA.

**Step 2:** Add the sum of the amounts determined in Step 1 for each affected school district to obtain the total base revenue limit for the component districts.

**Step 3:** Divide the sum determined in Step 2 by the total ADA in the newly reorganized school district. The total ADA used here is equal to the sum of the ADA of the component districts used in Step 1.

The result of Step 3 is the blended base revenue limit per ADA for the newly reorganized district.

This example shows that the weighted average calculation is revenue neutral since it yields the same total base revenue limit as for the sum of the component districts. That is, as shown in the calculation at the end of Example 1, the blended base revenue limit of \$6,574.34 per ADA times the 3,800 ADA of the newly reorganized district yields the same total revenue limit as the sum of the base revenue limits for the component districts (to within a small round-off error).

**SALARY AND BENEFIT ADJUSTMENTS**

The second part of the revenue limit calculation for a newly reorganized district is the calculation of the adjustments for the salary and benefit differentials. As discussed earlier, this calculation is based solely on the difference in average costs per FTE, and not on the cost increase that a district may incur in shifting to a common salary and benefit schedule.

**EXAMPLE 1 : BLENDED BASE REVENUE LIMIT USING 2009-10 DATA—  
 FOR A REORGANIZATION EFFECTIVE 2011-12**

District	2009-10 Base Revenue Limit per ADA (A)	2009-10 Revenue Limit ADA (B)	Affected ADA (C)	Percent of District in Reorganization (D) = (C) / (B)	Computed Total Base Revenue Limit (E) = (A) x (C)
Elementary District #1	\$6,180	900	900	100%	\$5,562,000
Elementary District #2	\$6,175	1,500	1,500	100%	\$9,262,500
Elementary District #3	\$6,210	200	200	100%	\$1,242,000
High School District #1	\$7,430	3,000	1,200	40%	\$8,916,000
<b>Totals</b>			<b>3,800</b>		<b>\$24,982,500</b>
Blended Base Revenue Limit per ADA = \$24,982,500 divided by 3,800 affected ADA = \$6,574.34 Check: \$6,574.34 times 3,800 = \$24,982,500 (or the same amount to within a \$2 round-off error)					

### AVERAGE SALARIES AND BENEFITS PER FTE

The first step in computing the salary and benefit adjustments is the determination of the average costs of all salaries and benefits per FTE for certificated staff and the corresponding amount for classified staff. The components of this calculation are as follows:

- ✦ Determine the total for salaries and benefits for all certificated employees for each affected district, including both part-time and full-time employees<sup>3</sup>. Perform a similar calculation for classified employees.
- ✦ Divide the total certificated salaries and benefits by the number of certificated FTE and divide the total classified salaries and benefits by the number of classified FTE.

Note that this calculation includes all certificated staff—teachers, counselors, administrators, etc.—in the certificated calculation and all classified staff—from aides to associate superintendent for business (if a classified employee)—in the classified calculation.

### HIGHEST AVERAGE COST PER FTE AND 25% STANDARD

The next step in computing the salary and benefit adjustments is to determine the highest average certificated (and highest average classified) cost per FTE among the component districts. Part of this determination, as required by state law, is the additional condition that only those component districts with 25% or more of the total ADA of the reorganized district are eligible to be considered as having the highest average cost used as the target to “level up” the other districts. This provision avoids the situation where a small district with high salary/benefit costs becomes the “level up” target for all of the other districts.

Prior to 1998, as a result of what many people considered to be a technical error in law, districts with less than 25% of the total ADA of the reorganized district were not only prohibited from being the “level up” target, but also were completely excluded from the “level up” calculation. After state law was amended in 1998, districts with less than 25% of the total ADA are still excluded from being the “level up” target, as noted above, but all districts, regardless of size, are included in the “level up” calculation.

### 10% CAP ON SALARY AND BENEFIT ADJUSTMENTS

Statutory law also stipulates that the amount of the add-on for salary and benefits adjustments per ADA cannot exceed 10% of the blended base revenue limit per ADA (ref. Education Code Section 35735.1(a) (4) (A)).

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<sup>3</sup> Collecting the data for both total expenditures and FTE counts for certificated and classified staff is often the hardest part of these calculations. The section below titled “Collecting Salary, Benefit, and FTE Data” gives guidelines for where to look (and not look) for this data.

State law specifies that the resultant base revenue limit per unit of ADA for the newly reorganized district cannot exceed the amount set forth in the proposal for reorganization that was approved by the State Board of Education (ref. Education Code Section 35735.1(c)). However, this Code section goes on to state that the Superintendent of Public Instruction may make technical adjustments to the calculation of the new base revenue limit, “if necessary to cause those apportionments to be consistent with this section,” without further State Board of Education action. That is, even though the data used for the reorganization calculations are from the second year prior to the effective date of the reorganization, the State Board of Education generally approves a reorganization proposal before that second prior year is over. As a result, the data presented to the State Board of Education is typically still estimated data, and the calculations must be updated when actual data is finalized. Thus, approval of a reorganization proposal by the State Board of Education is no guarantee of any specific revenue limit level.

#### BRINGING THE NEW BASE REVENUE LIMIT UP TO DATE

Since the calculation of the base revenue limit for the reorganized district is performed using data for the second year prior to the effective date of the reorganization, it is necessary to bring it up to date by adjusting it for:

The inflation increases that the reorganized district would have received for the fiscal year prior to the reorganization and for the fiscal year of the reorganization.

Any other adjustments to the base revenue limit that the reorganized district would have been eligible to receive had it been reorganized two years earlier. For example, if equalization aid is funded in the effective year of the reorganization or the prior year, the newly reorganized district would be eligible for the funded level of equalization aid in that year based on its recomputed base revenue limit. However, the actual level of equalization aid received by the component districts in the year prior to the reorganization would not be used.

#### DEFICITS

In 2008-09, school districts were dealt another challenge in the form of a deficit equal to 7.844%. In 2009-10, the deficit was increased to 18.355%. A reorganized district’s new base revenue limit is subject to the deficit factor in effect at that time.

## Appendix B: California Education Codes, Computation of Revenue Limits

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### California Education Code

#### Chapter 4. Reorganization of School Districts

#### Article 3. Contents of Plans and Recommendations

35735. (a) Each proposal for the reorganization of school districts shall include a computation of the base revenue limit per unit of average daily attendance for the districts. That computation shall be an integral part of the proposal and shall not be considered separately from the proposal. The computation of the base revenue limit for the newly organized school districts shall be based on the current information available for each affected school district for the second principal apportionment period for the fiscal year two years prior to the fiscal year in which the reorganization is to become effective. The computation of any adjustments for employee salaries and benefits shall be based on information from the fiscal year two years prior to the fiscal year in which the reorganization is to become effective. For the purposes of this article "affected school district" means a school district affected by a reorganization because all or a portion of its average daily attendance is to be included in the newly organized school districts.

(b) The county superintendent of schools shall compute the base revenue limit per unit of average daily attendance pursuant to Section 35735.1 for a school district involved in an action to reorganize and in an action to transfer territory.

(c) The State Department of Education shall use information provided pursuant to subdivision (a) by the county superintendent of schools in each county that has a school district affected by an action to unify or by an appeal of a transfer of territory to compute the base revenue limit per unit of average daily attendance for a newly organized school district pursuant to Section 35735.1.

(d) This section shall not apply to any reorganization proposal approved by the State Board of Education prior to January 1, 1995.

(e) Any costs incurred by the county superintendent of schools in preparing reports pursuant to this section or Section 35735.1 or 35735.2 may be billed to the affected school districts on a proportionate basis.

35735.1. (a) The base revenue limit per unit of average daily attendance for newly organized school districts shall be equal to the total of the amount of blended revenue limit per unit of

average daily attendance of the affected school districts computed pursuant to paragraph (1), the amount based on salaries and benefits of classified employees computed pursuant to paragraph (2), the amount based on salaries and benefits of certificated employees calculated pursuant to paragraph (3), and the amount of the inflation adjustment calculated pursuant to paragraph (4). The following computations shall be made to determine the base revenue limit per unit of average daily attendance for the newly organized school districts:

(1) Perform the following computation to arrive at the blended revenue limit:

(A) Based on the current information available for each affected school district for the second principal apportionment period for the fiscal year, two years prior to the fiscal year in which the reorganization is to become effective, multiply the base revenue limit per unit of average daily attendance for that school district by the number of units of average daily attendance for that school district that the county superintendent of schools determines will be included in the proposed school district.

(B) Add the amounts calculated pursuant to subparagraph (A).

(2) For each affected school district in the newly organized school districts, the following computation shall be made to determine the amount to be included in the base revenue limit per unit of average daily attendance for the newly organized school districts that is based on the salaries and benefits of full-time equivalent classified employees:

(A) For each of those school districts, make the following computation to arrive at the highest average amount expended for salaries and benefits for classified full-time employees by the districts:

(i) Add the amount of all salaries and benefits for classified employees of the district, including both part-time and full-time employees.

(ii) Divide the amount computed in clause (i) by the total number of full-time equivalent classified employees in the district.

(B) Among those school districts that will make up 25 percent or more of the average daily attendance of the resulting newly organized school district, compare the amounts determined for each of those school districts pursuant to subparagraph (A) and identify the highest average amount expended for salaries and benefits for classified employees.

(C) For each of the school districts with salaries and benefits that are below the highest average amount identified in subparagraph (B) and that are included, in whole or in part, in the newly organized district, subtract the amount determined for the district pursuant to subparagraph (A) from the amount identified pursuant to subparagraph (B).

(D) For each of those school districts, multiply the amount determined for the district pursuant to subparagraph (C) by the number of full-time equivalent classified employees employed by the district, and then multiply by the percentage of the district's average daily attendance to be included in the new district.

(E) Add the amounts computed for each school district pursuant to subparagraph (D).

(3) For each affected school district in the newly organized school districts, the following computation shall be made to determine the amount to be included in the base revenue limit per unit of average daily attendance for the newly organized school districts that is based on the salaries and benefits of full-time equivalent certificated employees:

(A) For each of those school districts, make the following computation to determine the highest average amount expended for salaries and benefits for certificated full-time employees:

(i) Add the amount of all salaries and benefits for certificated employees, including both part-time and full-time employees.

(ii) Divide the amount determined in clause (i) by the total number of full-time equivalent certificated employees in the district.

(B) Among those school districts that will make up 25 percent or more of the average daily attendance of the resulting newly organized school district, compare the amounts determined for each school district pursuant to subparagraph (A) and identify the highest average amount expended for salaries and benefits for certificated employees.

(C) For each of the school districts with salaries and benefits that are below the highest average amount identified in subparagraph (B) and that are included, in whole or in part, in the newly organized school district, subtract the amount determined for the district pursuant to subparagraph (A) from the amount identified pursuant to subparagraph (B).

(D) For each of those school districts, multiply the amount determined for the district pursuant to subparagraph (C) by the number of full-time equivalent certificated employees of the school district, and then multiply by the percentage of the district's average daily attendance to be included in the new district.

(E) Add the amount calculated for each school district identified pursuant to subparagraph (D).

(4) The base revenue limit per unit of average daily attendance shall be adjusted for inflation as follows:

(A) Add the amounts determined pursuant to subparagraph (B) of paragraph (1), subparagraph (E) of paragraph (2), and subparagraph (E) of paragraph (3), and divide that sum by the number

of units of average daily attendance in the newly organized school districts. The amount determined pursuant to this subparagraph shall not exceed 110 percent of the blended revenue limit per unit of average daily attendance calculated pursuant to paragraph (1).

(B) (i) Increase the amount determined pursuant to subparagraph (A) by the amount of the inflation adjustment calculated and used for apportionment purposes pursuant to Section 42238.1 for the fiscal year immediately preceding the year in which the reorganization becomes effective.

(ii) With respect to a school district that unifies effective July 1, 1997, and that has an average daily attendance in the 1996-97 fiscal year of more than 1,500 units, increase the amount determined pursuant to subparagraph (A) by an amount calculated as follows:

(I) For each component district of the newly unified district, multiply the amount of revenue limit equalization aid per unit of average daily attendance determined pursuant to Sections 42238.41, 42238.42, and 42238.43, or any other sections of law, for the 1996-97 fiscal year by the 1996-97 second principal apportionment units of average daily attendance determined pursuant to Section 42238.5 for that component district.

(II) Add the results for all component districts, and divide this amount by the sum of the 1996-97 second principal apportionment units of average daily attendance determined pursuant to Section 42238.5 for all component districts.

(C) Increase the amount determined pursuant to subparagraph (B) by the amount of the inflation adjustment calculated and used for apportionment purposes pursuant to Section 42238.1 for the fiscal year in which the reorganization becomes effective for all purposes.

(D) Increase the amount determined pursuant to subparagraph (C) by any other adjustments to the base revenue limit per unit of average daily attendance that the newly organized school districts would have been eligible to receive had they been reorganized in the fiscal year two years prior to the year in which the reorganization becomes effective for all purposes.

(b) The amount determined pursuant to subparagraph (D) of paragraph (4) of subdivision (a) shall be the base revenue limit per unit of average daily attendance for the newly organized school districts.

(c) The base revenue limit per unit of average daily attendance for the newly organized school district shall not be greater than the amount set forth in the proposal for reorganization that is approved by the state board. The Superintendent may make adjustments to base revenue limit apportionments to a newly organized school district, if necessary to cause those apportionments to be consistent with this section.

(d) If the territorial jurisdiction of any school district was revised pursuant to a unification, consolidation, or other reorganization, occurring on or before July 1, 1989, that resulted in a

school district having a larger territorial jurisdiction than the original school district prior to the reorganization, and a reorganization of school districts occurs on or after the effective date of the act that added this subdivision that results in a school district having a territorial jurisdiction that is substantially the same, as determined by the state board, as the territorial jurisdiction of that original school district prior to the most recent reorganization occurring on or before July 1, 1989, the revenue limit of the school district resulting from the subsequent reorganization shall be the same, notwithstanding subdivision (b), as the revenue limit that was determined for the original school district prior to the most recent reorganization occurring on or before July 1, 1989.

(e) The average daily attendance of a newly organized school district, for purposes of subdivision (d) of Section 42238, shall be the average daily attendance that is attributable to the area reorganized for the fiscal year two years prior to the fiscal year in which the new district becomes effective for all purposes.

(f) For purposes of computing average daily attendance pursuant to subdivision (d) of Section 42238 for each school district that exists prior to the reorganization and whose average daily attendance is directly affected by the reorganization, the following calculation shall apply for the fiscal year two years prior to the fiscal year in which the newly reorganized school district becomes effective:

(1) Divide the 1982-83 fiscal year average daily attendance, computed pursuant to subdivision (d) of Section 42238, by the total average daily attendance of the district pursuant to Section 42238.5.

(2) Multiply the percentage computed pursuant to paragraph (1) by the total average daily attendance of the district calculated pursuant to Section 42238.5, excluding the average daily attendance of pupils attributable to the area reorganized.

(g) This section shall not apply to any reorganization proposal approved by the state board prior to January 1, 1995.

(h) Notwithstanding any other provision of law, this section shall not be subject to waiver by the state board pursuant to Section 33050 or by the Superintendent.

## Appendix C: Legislative Analyst's Office Report on District Consolidation

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In May 2011, the Legislative Analyst's Office (LAO) issued a report on school district consolidation and regionalization of county offices of education. This report was conducted at the direction of the Legislature, pursuant to the Supplemental Report of the 2010-11 Budget Act.

According to the LAO, about 40% of the school districts in the state are small by their definition (that is serving fewer than 1,000 students), and about 10% of all districts are very small (serving less than 100 students). Under current law, elementary districts must serve at least six ADA and high school and unified districts must serve at least 11 ADA.

The LAO found that while small districts incurred slightly higher overhead costs than midsize districts and students achievement was slightly lower in small districts, the differences were not significant. However, very small districts tended to devote a much larger share of their budgets to overhead costs and less to instructional services. Perhaps more importantly, student performance in very small districts is difficult to determine with any level of reliability because their small enrollments do not yield statistically significant results; therefore, it is difficult to hold very small districts accountable for their academic program.

The LAO concludes that small districts tend to remain small rather than pursue consolidations because the state both provides fiscal incentives to remain small and disincentives to consolidate. For very small districts, the fiscal advantage to remain small can be more than twice the per ADA funding provided to their midsize and large district counterparts.

There is insufficient academic research to support a state policy change to either force or strongly encourage district consolidation, according to the LAO. Instead of a one-size-fits-all response to school district consolidation, the LAO recommends maintaining California's long-standing policy of letting local constituencies decide how to structure their local school districts.

The LAO, however, concludes that current state policies that provide small districts with a substantial fiscal advantage over midsize districts ultimately discourage consolidation and therefore should be repealed. Their recommendations include the following:

- Increase minimum threshold for district size to at least 100 students.
- Eliminate the practice of providing minimum grants for enrollment-based categorical aid, such as Economic Impact Aid (EIA), the Supplemental Counseling program, the School Safety Block Grant and the Arts and Music Block Grants.
- Clarify that most consolidations can waive California Environment Quality Act (CEQA) review requirements or repeal the CEQA review altogether.

- Eliminate the two-year salary and position protection for classified employees in districts that consolidate (under current law this protection applies only to employees in district that unify).
- Increase the statutory distance threshold for how far students would be required to travel to get to another public school in order for their local school to be deemed “necessary” and qualify for necessary small school aid.
- Consider establishing a minimum school size of perhaps 20 students to encourage greater efficiencies and opportunities for students, with a waiver option based on extreme circumstances.

To review the LAO’s full report, go to

[http://lao.ca.gov/reports/2011/edu/district\\_consolidation/district\\_consolidation\\_050211.pdf](http://lao.ca.gov/reports/2011/edu/district_consolidation/district_consolidation_050211.pdf).