

CITY OF ALAMEDA

MEMORANDUM

OFF-AGENDA

To: Honorable Mayor and
Councilmembers

From: Debra Kurita
City Manager

Date: March 14, 2007

Re: Request for Follow-Up Information Regarding School District Funding

BACKGROUND

In response to concerns raised about the potential impact of redevelopment on Alameda Unified School District (AUSD) funding, the Council requested that staff research how California redevelopment law impacts local school funding in the City of Alameda. Establishment of local redevelopment project areas does not impact school district funding in Alameda, which is determined at the State, and not the local level.

DISCUSSION/ANALYSIS

Traditionally, school districts were funded at the local level through ad valorem property taxes. However, local funding alone, generated from property tax, created disparate funding in districts throughout the state. For example, wealthy communities with substantial property taxes had well-funded schools, while districts in poorer communities struggled to meet their needs. Ultimately, the California Supreme Court ruled that this system of funding was unconstitutional as it violated the equal protection clause of the State Constitution¹. The current funding system grew out of these Supreme Court rulings and has been in place for more than 30 years.

The current funding system provides a formula by which non-basic aid school districts receive an allotted amount of funding from the State. The funding is made up of property tax monies and State subvention funds. Basic aid school districts are those districts that elect not to participate in the funding system and rely solely on property taxes collected within the local jurisdiction. Basic aid school districts are typically in wealthy communities that generate local property taxes in excess of what the district would receive if it participated in the statewide funding program.

¹ See Serrano v. Priest (1971) 5 C.3d 584 (Serrano I) and Serrano v. Priest (1976) 18 C.3d 728 (Serrano II).

For non-basic aid districts, such as the Alameda Unified School District, the State subvention funds are based on an Average Daily Attendance formula. Schools receive funding based on a combination of State funds and property tax receipts. If property tax receipts increase, State funding decreases. If property tax funding decreases, State funding increases.

Redevelopment activities are financed primarily by capturing the increment of increased ad valorem property tax generated within a redevelopment area after the date that redevelopment area is adopted. In other words, as property within the project area is redeveloped to a higher use, the assessed valuation of that property rises, leading to an increase in property taxes paid. That increase, or increment, goes back to the redevelopment agency to finance additional redevelopment activities.

State law limits the use of tax increment funds by redevelopment agencies. Specifically, redevelopment agencies may only use tax increment funds to implement redevelopment activities such as redevelopment planning; land acquisition within a redevelopment area; financing and construction or rehabilitation of infrastructure, buildings or public amenities; and subsidies for affordable housing. By law, tax increment revenues must be used primarily to benefit the redevelopment project area and may not be used to pay for the normal maintenance or operations of public facilities or improvements.

In summary, the existence of a redevelopment project area is fiscally neutral for the general fund operations budget of non-basic aid school districts. As a consequence of the State's structure for funding schools, incremental increases in property tax revenues received by the district are offset by decreases in direct funding from the State. Therefore, if the project area were not established, and the property tax revenues were to flow to the school district rather than to the redevelopment agency, the State would decrease its funding allocation to the district's general fund operations budget. In addition, the Alameda Unified School District staff has informed the City that, in the absence of redevelopment project areas in Alameda, the District would lose redevelopment funds it currently receives for capital purposes.

RECOMMENDATION

This report is for information only and no action is required.

Respectfully submitted,

Leslie A. Little
Development Services Director

By: 
Debbie Potter
Base Reuse and Community
Development Manager

ll:dp/ig

cc: City Manager
Assistant City Manager
Deputy City Manager
Public Reference Binder