DEPARTMENT OF EDUCATION

Item 6100 from the General Fund and various funds — Budget p. E 1

Requested 1984–85	$10,036,215,000
Estimated 1983–84	9,224,875,000
Actual 1982–83	8,366,969,000
Requested increase (excluding amount for salary increases) $811,340,000 (+8.8 percent)	
Total recommended reduction	51,692,000
Recommendation pending	63,578,000

1984–85 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
6100-001-001	Main support	General	$26,195,000
6100-001-140	Environmental education administration	Environmental License Plate	106,000
6100-001-178	School bus driver instruction	Driver Training Penalty Assessment	317,000
6100-001-305	Private postsecondary education	Private Postsecondary Administration	719,000
6100-001-344	School facilities planning	State School Building Lease-Purchase	596,000
6100-001-680	Surplus property agency	Surplus Property Revolving	26,998,000
6100-001-890	Federal support	Federal Trust	32,829,000
6100-006-001	Special schools	General	31,921,000
6100-007-001	Special schools student transportation	General	503,000
6100-011-001	Library support	General	7,215,000
6100-011-890	Library federal support	Federal Trust	1,593,000
6100-015-001	Instructional materials warehousing and shipping	General	253,000
6100-101-001	School apportionments	General	6,348,720,000
6100-101-890	Federal block grant	Federal Trust	35,718,000
6100-101-945	Child nutrition	State Child Nutrition	(26,803,000)
6100-106-001	County schools	General	77,020,000
6100-107-001	Education Improvement Incentive Program	General	15,000,000
6100-109-001	High school pupil counseling	General	6,600,000
6100-111-001	Home-to-School Transportation	General	250,173,000
6100-114-001	Court mandate reimbursement	General	154,416,000
6100-116-001	School Improvement Program	General	182,757,000
6100-118-001	Vocational education student organizations	General	500,000
6100-119-001	Opportunity classes/specialized scondary schools/foster youth services	General	6,885,000
6100-121-001	Economic Impact Aid	General	182,041,000
6100-124-001	Gifted and Talented Education	General	17,848,000
6100-126-001	Miller-Unruh Reading Program	General	17,153,000
6100-131-001	Native American Indian Education	General	337,000
6100-136-890	Federal ECIA Chapter 1	Federal Trust	297,413,000
6100-141-890	Migrant education	Federal Trust	63,442,000
6100-146-001	Demonstration programs in reading and math	General	3,771,000
6100-151-001	American Indian Education Centers	General	795,000

DEPARTMENT OF EDUCATION—Continued

6100-156-001—Adult education	General	162,685,000
6100-156-890—Federal adult education	Federal Trust	9,288,000
6100-158-001—Adults in correctional facilities	General	1,271,000
6100-161-001—Special education	General	683,217,000
6100-161-890—Federal special education	Federal Trust	89,522,000
6100-166-001—Federal Job Training Partnership Act	Federal Trust	—
6100-166-890—Vocational education	Federal Trust	57,152,000
6100-171-178—Driver training	Driver Training Penalty Assessment	17,336,000
6100-176-890—Transition program for refugees	Federal Trust	5,565,000
6100-181-001—Educational technology	General	6,672,000
6100-181-140—Environmental education	Environmental License Plate	394,000
6100-186-001—Instructional materials	General	58,967,000
6100-187-001—Instructional materials, 9–12	General	17,835,000
6100-191-001—Staff development	General	66,329,000
6100-192-001—Mathematics, Engineering, Science Achievement	General	1,351,000
6100-196-001—Child development	General	263,459,000
6100-196-890—Federal child development	Federal Trust	1,957,000
6100-201-001—Child nutrition	General	26,803,000
6100-201-890—Federal child nutrition	Federal Trust	322,590,000
6100-206-001—Urban Impact Aid	General	70,699,000
6100-207-001—Meade Aid	General	9,646,000
6100-211-001—Library local assistance	General	7,000,000
6100-211-890—Federal library local assistance	Federal Trust	6,162,000
6100-221-001—Public Library Foundation Program	General	12,000,000
6100-222-001—Youth Suicide Prevention Program	General	300,000
6100-224-001—Alternatives to new construction	General	7,687,000
6100-226-001—Cost-of-living increases	General	340,494,000
Total		$10,036,215,000
Funding Source:		
General		*$9,066,518,000*
Federal Trust		*923,231,000*
Environmental License Plate		*500,000*
Driver Training Penalty Assessment		*17,653,000*
Private Postsecondary Administration		*719,000*
State School Building Lease-Purchase		*596,000*
Surplus Property Revolving		*26,998,000*
State Child Nutrition		*(26,803,000)*

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

School Apportionments

1. Index for Cost-of-Living Adjustment. Recommend enactment of legislation specifying that an annual inflation adjustment shall be made to revenue limits based on the ratio of the Implicit Price Deflator for State and Local Government Purchases in the preceding calendar year to the deflator in the year before the preceding calendar year. 1486
2. Public Employees' Retirement System (PERS) Contributions. Recommend that the Department of Finance explain to the fiscal committees why the budget does not provide funding to increase school district revenue limits to reflect termination of the PERS reduction pursuant to SB 813. 1487
3. ***Apprenticeship Programs. Reduce Item 6100-101-001 by $877,000 and reduce Item 6100-226-001 by $123,000.*** Recommend (1) adoption of Budget Bill language that defines the instructional hour as 60 minutes, including passing time of up to 10 minutes, for purposes of funding related and supplemental instruction for apprenticeship programs, because current law has been interpreted in such a way as to provide an unjustified COLA and (2) deletion of funds to reflect adoption of the proposed language. 1488
4. ***Incentives for Longer School Day and Year. Reduce Item 6100-101-001 by $8,500,000.*** Recommend reduction in the amount budgeted for incentive payments to increase the length of the school day and year because the proposed funding level exceeds the program's requirements. 1493
5. ***Minimum Teachers' Salaries. Reduce Item 6100-101-001 by $11,600,000.*** Recommend reduction in the amount budgeted for increasing minimum teachers' salaries, to reflect revised estimates of the program's funding requirements. 1494
6. Teacher Salary Schedule Adjustments. Recommend adoption of Budget Bill language requiring school districts and county offices of education, as a condition of receiving reimbursements for increasing minimum teachers' salaries, to adjust their salary schedules to reflect the new minimum salaries actually paid. 1495
7. ***Summer School COLA. Reduce Item 6100-101-001 by $1,758,000.*** Recommend reduction in the appropriation for K–12 apportionments because the COLAs for regular and supplemental summer school programs are double-budgeted. 1496
8. ***Supplemental Summer School COLA. Reduce Item 6100-226-001 by $1,231,000.*** Recommend deletion of the amount provided as a COLA for new supplemental summer school programs in math and science because a COLA for this program is not justified. 1496
9. Supplemental Summer School Enrollment. Recommend 1497

DEPARTMENT OF EDUCATION—Continued

adoption of Budget Bill language that limits the number of hours of supplemental summer school instruction a district may claim for purposes of school apportionments to 136 hours per pupil times 5 percent of the district's enrollment, in order to provide an effective limit on state costs.

Other General Education Programs

10. County Offices of Education. Recommend adoption of Budget Bill language requiring county offices of education to revert to the School Employees Fund all unexpended balances of funds allocated for unemployment insurance claims administration. 1499
11. Juvenile Hall Programs. Recommend adoption of Budget Bill language allocating inflation allowances in such a way as to provide an equal dollar amount per ADA for each juvenile hall program. 1500
12. Urban Impact Aid. Recommend adoption of Budget Bill language directing the Superintendent of Public Instruction to determine nonunified school districts' eligibility for, and allocation of, Urban Impact Aid based on (1) average daily attendance in 1983–84, (2) the number of AFDC children in the district in 1983–84, and (3) data from the most recent Racial and Ethnic Survey. 1501

Programs to Improve Classroom Instruction

13. *Education Improvement Incentive Program (EIIP) Funding. Reduce Item 6100-107-001 by $7,800,000.* Recommend reduction because the amount proposed exceeds the reasonable requirements for a pilot study. 1506
14. EIIP Incentive Payments. Recommend adoption of Budget Bill language directing the State Department of Education to develop, and disseminate to participating schools, a schedule of payments showing the amount of funding per pupil to which a school shall be entitled for given increases in its students' test scores. 1506
15. Institute for Computer Technology (ICT). Recommend enactment of legislation to clarify that Regional Occupational Centers and Programs (ROC/Ps) and adult schools may contract with ICTs to operate classes, and that school districts may claim ADA credit for ICT classes. Further recommend adoption of supplemental report language relating to ICT classes. 1509
16. Specialized Secondary Programs. Recommend adoption of supplemental report language expressing the Legislature's intent that (1) specialized secondary programs be funded annually for three years as pilot projects, (2) an evaluation of the programs be initiated in 1985–86, and (3) continuation of funding for the programs beyond 1986–87 be made contingent upon a review of the results of the evaluation. 1511
17. Opportunity Classes. Recommend adoption of Budget Bill language requiring that funding for expansion of opportunity classes be based on average daily attendance (ADA) rather than headcount enrollment. 1512
18. *Instructional Materials (Grades K–8). Reduce Item 6100-186-001 by $685,000.* Recommend reduction in the ap- 1514

propriation for instructional materials in grades K–8 because the budget does not account for $685,000 in projected current-year unexpended balances that will be available for expenditure in 1984–85.

19. Instructional Materials (Grades 9–12). Recommend that Department of Finance explain at budget hearings an apparent $396,000 underfunding for instructional materials in grades 9–12. 1515

20. ***Instructional Materials Ordering Process. Reduce Item 6100-001-001 by $418,000, reduce Item 6100-186-001 by $4,078,000, and reduce Item 6100-226-001 by $122,000.*** Recommend adoption of Budget Bill language (1) allocating all instructional materials funds directly to local education agencies prior to September 15, 1984, and (2) requiring districts that order textbooks through the state to reimburse the state for the administrative costs of providing this service, thereby facilitating a fair comparison of the two systems for ordering textbooks and allowing a General Fund savings of $418,000. Further recommend $4.2 million reduction in the appropriation for instructional materials in grades K–8 in order to reflect the estimated loss in General Fund income to the state (and corresponding gain to local school districts) resulting from (1) above. 1515

21. Instructional Materials Review Process. Recommend adoption of supplemental report language directing the State Board of Education to (1) disseminate to school districts the Curriculum Commission's report on textbooks recommended for adoption and (2) require the commission to include in its report a summary of negative recommendations made by Instructional Materials Evaluation Panels. 1517

22. Instructional Materials Warehousing and Shipping. Withhold recommendation on the proposed $253,000 General Fund appropriation for warehousing and shipping, pending the receipt of additional information concerning workload. 1518

Programs to Strengthen Teaching and Administration

23. Mentor Teacher Program. Recommend adoption of supplemental report language directing the State Department of Education to report to the Joint Legislative Budget Committee and the fiscal committees on the duties performed by mentor teachers. 1521

24. ***Administrator Training and Evaluation Program. Reduce Item 6100-191-001 by $500,000.*** Recommend adoption of Budget Bill language allocating $100,000 per center to provide for the establishment of one administrator training center in each Teacher Education and Computer Center region, contingent upon matching local funds. 1522

25. Pilot Projects for Administration and Management. Recommend adoption of supplemental report language requiring the Department of Education to evaluate, or contract for the evaluation of, the pilot projects for administrative personnel and management. 1524

DEPARTMENT OF EDUCATION—Continued

Special Education

26. Special Education Utilization Standards. Recommend adoption of Budget Bill language requiring the Department of Education to reallocate underutilized special education instructional units to Special Education Local Plan Areas (SELPAs) that can demonstrate a need for additional units. 1528
27. Licensed Children's Institutions (LCIs). Recommend adoption of Budget Bill language directing the Department of Education to require local education agencies to meet the class utilization standards adopted in SB 769 (Ch 1094/81) before authorizing additional state-funded instructional units to serve students from LCIs. 1536
28. Special Education Infant Programs. Recommend that no funds be provided for the expansion of special education infant programs because the Department of Education has provided no data to show that an expansion is warranted. 1537

Other Specialized Education Programs

29. Outreach Programs. Recommend adoption of supplemental report language requiring the Department of Education to report on the merits of consolidating the MESA, University and College Opportunities, and California Academic Partnership programs. 1548
30. *Driver Training. Reduce Item 6100-171-178 by $3,630,000 from the Driver Training Penalty Assessment Fund.* Recommend reduction to reflect declining enrollment in the program. 1550
31. Federal Block Grant. Withhold recommendation on the proposed appropriation of $35,718,000 in federal block grant (ECIA Chapter 2) funds, pending receipt of an expenditure plan from the State Department of Education. 1554

State and Court Mandates

32. Court Mandate Reimbursement Underfunding. Recommend that the Department of Finance comment during budget hearings on an apparent $26.4 million underfunding of court mandate reimbursement claims in 1984–85. 1557

Ancillary Support for K–12 Education

33. Transportation of Special Education Pupils. Recommend adoption of Budget Bill language allowing home-to-school transportation allowances to be used for providing special education "related services" that are required by a pupil's individualized education program. 1560
34. Transportation Fund. Recommend enactment of legislation permitting school districts and county offices of education to establish a general fund restricted account for transportation allowances instead of using a separate transportation fund. 1561
35. Constitutional Amendment. Recommend enactment of legislation to place a constitutional amendment on the November 1984 election ballot authorizing local voters to assess special property tax rates to fund debt service for local school construction bonds. 1568
36. Hardship Apportionments. Recommend adoption of Budget Bill language increasing, in 1984–85 only, the 1571

amount of funds which the State Allocation Board may reserve from the State School Deferred Maintenance Fund for "hardship apportionments" to school districts experiencing critical deferred maintenance needs.

37. ***Alternatives to New Construction. Reduce Item 6100-224-001 by $3,840,000.*** Recommend reduction in the amount budgeted for incentive payments because it exceeds the amount needed. 1574

38. Child Nutrition. Withhold recommendation on proposed $27,607,000 General Fund appropriation for the state child nutrition program, pending receipt of additional information. 1577

Non-K-12 Education Programs

39. Child Care Fees. Recommend adoption of Budget Bill language specifying the expenditure of child care fees collected from AFDC parents under the provisions of AB 1162. 1583

40. School Age Parenting and Infant Development. Recommend that at the time of budget hearings, the State Department of Education report on specified aspects of the School Age Parenting and Infant Development program. 1589

41. Child Care Facilities. Recommend adoption of Budget Bill language permitting child care agencies to spend contract funds to (1) renovate or repair child care facilities to meet state and local health and safety standards or (2) repay loans from the revolving loan fund established for this purpose. 1591

42. Data Processing. Recommend that at the time of budget hearings, the State Department of Education report on (1) the results of implementing the PROMIS, AIMS, and CALSTARS data processing systems and (2) the reasons for increases in operating costs and staffing in the department's accounting office. 1592

43. ***Adult Education COLA Deficiency. Reduce Item 6100-156-001 by $1,600,000.*** Recommend (1) rejection of the Governor's proposed deficiency appropriation of $1.6 million for adult education in 1983–84 because it would provide a higher COLA for adult education than was provided for other categorical programs and (2) reduction in the appropriation for adult education in 1984–85 by $1.6 million because the budget assumes that the Legislature will enact the proposed deficiency appropriation. 1596

44. Home Economics and Health and Safety Courses for Adults. Recommend adoption of Budget Bill language reducing authorized state-funded adult education enrollment growth from 2.5 percent to 0.2 percent in 1984–85 in order to reflect the budget proposal to eliminate home economics and health and safety courses. 1597

45. ***Adult Education Concurrent Enrollment. Reduce Item 6100-101-001 by $6,106,000.*** Recommend adoption of Budget Bill language providing that ADA claimed for the attendance of secondary school pupils concurrently enrolled in adult education programs shall be funded at each 1597

DEPARTMENT OF EDUCATION—Continued

district's adult revenue limit, rather than at the regular district base revenue limit.

46. Surplus Property Revolving Fund Reserves. Recommend adoption of supplemental report language directing the State Department of Education to (1) achieve and maintain a $7 million reserve in the Surplus Property Revolving Fund and (2) submit quarterly reports on fund balances. 1600
47. Office of Surplus Property Warehouse Conversions. Recommend adoption of supplemental report language directing the State Department of Education to report the savings resulting from the conversion of warehouse space in Sacramento and Pomona to refrigerated storage. 1601
48. ***Office of Surplus Property Hardware Program. Increase Item 6100-001-680 by $2,491,000 in the Surplus Property Revolving Fund and reduce Item 1760-001-688 by a corresponding amount.*** Recommend rejection of the budget proposal to shift funding for the hardware portion of the surplus property program from the Department of Education (Office of Surplus Property) to the Department of General Services (Office of Procurement) because legislation authorizing the transfer has not been enacted. 1602
49. Emergency Food Distribution Program. Recommend that the Department of Finance (1) submit an expenditure plan for the emergency food distribution program in 1984–85 and (2) report on the appropriateness of maintaining this program within the Office of Surplus Property. 1604

State Department of Education

50. Restrictions on Administrative Positions. Recommend that at the time of budget hearings, the department explain (1) why it has failed to comply with 1983 Budget Act language placing restrictions on administrative positions in the department and (2) what steps it intends to take to comply with these provisions. 1609
51. California Assessment Program (CAP). Recommend adoption of Budget Bill language (1) providing that funds appropriated for the development of a 10th grade test shall be available for expenditure only upon approval of the Director of Finance and (2) prohibiting the expenditure of funds for the development of individual student score reporting. 1612

State Library

52. ***California Library Services Act—Interlibrary Loan. Reduce Item 6100-211-001 by $1,315,000.*** Recommend adoption of Budget Bill language requiring libraries participating in the California Library Services Act to charge patrons a $1 processing fee for interlibrary loans, so that the amount needed for interlibrary loan reimbursements will be reduced. Further recommend deletion of the proposed $1.3 million augmentation for additional reimbursements, to reflect reduced need. 1619

Summary of Legislative Analyst's Recommended Fiscal Changes
1984–85

Activity	*General Fund*	*Other State Funds*
Apprenticeship Program	–$1,000,000	
Longer School Day and Year	–8,500,000	
Summer School COLA	–1,758,000	
Supplemental Summer School Programs	–1,231,000	
Minimum Teachers' Salaries	–11,600,000	
Education Improvement Incentive Program	–7,800,000	
Instructional Materials Overbudgeting	–685,000	
Instructional Materials Ordering Process (State Operations)	–418,000	
Instructional Materials Ordering Process (Local Assistance)	–4,200,000	
Administrator Training Program	–500,000	
Driver Training		–$3,630,000
Alternatives to New Construction	–3,840,000	
Adult Education COLA Deficiency	–1,600,000	
Adult Education Concurrent Enrollment	–6,106,000	
Office of Surplus Property		+2,491,000
State Library	–1,315,000	
Totals	–$50,553,000	–$1,139,000

OVERVIEW OF ANALYSIS

We recommend a net reduction of $51.7 million in the proposed appropriations for K–12 education. This amount consists of $50.6 million in reductions from the General Fund and $1.1 million in reductions (net) from other state funds. The recommended reductions reflect our findings that the budget contains funds which are in excess of individual program needs. Any funds released by these recommendations would be available for redirection by the Legislature to other education or noneducation programs.

Our analysis of K–12 education begins with a comprehensive review of the recent school reform legislation—SB 813, and is organized as follows:

OUTLINE OF THE K–12 EDUCATION ANALYSIS

DEPARTMENT OF EDUCATION—Continued

DEPARTMENT OF EDUCATION—Continued

GENERAL PROGRAM STATEMENT

In 1984–85, approximately 4.3 million students will attend public elementary and secondary schools in 1,029 elementary, high, and unified school districts. Student attendance in these districts is expressed in terms of "ADA" (average daily attendance), which is defined as the average number of pupils that actually attend classes for at least the minimum school day plus the average number of pupils having a valid excuse for absence.

Table 1 shows K–12 attendance figures for the prior, current, and budget years. As the table indicates, the attendance level for 1984–85 is projected to increase by 1.1 percent above the 1983–84 level.

Table 1
Annual Average Daily Attendance (ADA) in California Public Schools
1982–83 to 1984–85

	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Change* Amount	*Change* Percent
Elementary	2,729,075	2,748,200	2,774,700	26,500	1.0%
High School	1,240,776	1,242,700	1,262,800	20,100	1.6
Adult Education	157,459	160,759	160,759	—	—
County	14,748	16,040	17,555	1,515	9.4
Regional Occupational Centers and Programs	87,570	97,320	97,320	—	—
Totals	4,229,628	4,265,019	4,313,134	48,115	1.1%

Source: Department of Finance Midrange Projection of November 28, 1983.

The state provides assistance to local district programs for K–12 students through a number of general and categorical aid programs.

The K–12 education system is administered by the State Department of Education (SDE), 58 county offices of education, and 1,029 school districts. The department has 1,202.2 authorized positions in the current year.

OVERVIEW OF BUDGET REQUEST

K–12 Revenues

The budget proposes that $15,506 million be made available to support California's K–12 public schools in 1984–85. This is an increase of $1,683 million, or 12.2 percent, over the amount provided in the current year. Table 2 displays total revenues for K–12 education in the prior, current, and budget years.

Under the budget proposal, the General Fund would provide $9,749 million to support K–12 education, while other state funds would contribute $74 million (excluding funds for capital outlay). Thus, the total amount proposed from state sources for K–12 education in 1984–85 is $9,822 million, an increase of $1,351 million, or 16 percent, over the current-year level. The entire increase in state support is proposed from the General Fund.

Local property tax levies are expected to provide $2,812 million in 1984–85. This is an increase of $93 million, or 3.4 percent, over the current-year level. Thus, state and local revenue sources combined are expected to provide a total of $12,634 million for the state's public elementary and secondary schools in 1984–85. This is an increase of $1,444 million, or 12.9 percent, over state and local revenue in 1983–84.

Table 2
Total Revenues for K–12 Education
1982–83 through 1984–85
(in millions)

	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Change* Amount	*Change* Percent
State:					
General Fund [a]	$7,813.6	$8,397.6	$9,748.5	$1,350.9	16.1%
Special funds [b]	71.6	73.6	73.6	—	—
Subtotals, State	$7,885.2	$8,471.2	$9,822.1	$1,350.9	15.9%
Local:					
Property tax levies	$2,461.8	$2,719.3	$2,812.3	$93.0	3.4%
Subtotals, State and Local	$10,347.0	$11,190.5	$12,634.4	$1,443.9	12.9%
Other:					
Federal [c]	$857.3	$1,002.2	$993.3	−$8.9	−0.9%
State capital outlay [d]	100.0	150.0	325.0	175.0	116.7
Local debt service	450.3	439.9	429.8	−10.1	−2.3
Local miscellaneous revenues	956.4	1,039.9	1,123.4	83.5	8.0
Subtotals, Other	$2,364.0	$2,632.0	$2,871.5	$239.5	9.1%
Totals	$12,711.0	$13,822.5	$15,505.9	$1,683.4	12.2%

[a] Includes contributions to the State Teachers' Retirement Fund.
[b] Includes the California Environmental License Plate Fund, State School Fund, Surplus Property Revolving Fund, and others.
[c] Includes Federal Impact Aid (PL 81-874) which is not shown in the budget.
[d] Includes Proposition 1 bond funds and tidelands revenues for capital outlay.

DEPARTMENT OF EDUCATION—Continued

Other revenue sources are expected to contribute an additional $2,872 to support K–12 programs in the budget year. This amount is composed of (1) federal funds estimated at $993 million, (2) state funds for capital outlay from the sale of Proposition 1 bonds and tidelands revenues estimated at $325 million, (3) local property taxes used to retire indebtedness approved by voters prior to Proposition 13 of 1978, estimated at $430 million, and (4) miscellaneous revenues of $1,123 million from the sale and rental of district property, interest earned on cash deposits, cafeteria income, and other local revenue sources.

2. Significant Program Changes in 1984–85

Table 3 shows the components of the $1,683 million net increase in total support proposed for California's K–12 public schools in 1984–85. The most significant General Fund changes include:

- Increases needed to fund ADA growth ($49.6 million),
- Increases needed to fund SB 813 and other financial legislation ($554 million),
- Elimination of one-time funding for the 1982–83 special education deficiency (–$23.5 million),
- Inflation adjustments to support all K–12 education programs ($341 million),
- Increased contributions to the State Teachers' Retirement Fund ($518 million), and
- A decrease in General Fund requirements to support K–12 apportionments, resulting from an increase in local property tax revenues (–$93.0 million).

• ***Growth in Average Daily Attendance.*** Average daily attendance (ADA) statewide is expected to increase by 48,115 in 1984–85. An additional 26,500 ADA are expected in grades K through 8, and an additional 20,100 ADA are expected in the state's high schools. County offices of education are expected to serve an additional 1,515 ADA. The budget provides $49.6 million to fund ADA growth, after all enrollment-related adjustments have been made.

• ***Cost of Financial Legislation—SB 813.*** Senate Bill 813 results in increased costs of $556 million in 1984–85, exclusive of costs for COLAs and assuming 100 percent district participation in the voluntary reform programs. Other financial legislation reduces General Fund costs in 1984–85 by $1.8 million. Thus, the budget proposes $554 million to fund the added costs in 1984–85 of legislation adopted in prior years.

• ***Elimination of One-Time Funding for Special Education Deficiency.*** The 1983 Budget Act appropriated $23.5 million to fund part of the 1982–83 deficit in special education. Because this was a one-time cost, the 1984–85 budget shows a reduction of $23.5 million between the current and budget years.

• ***Cost-of-Living Adjustments (Item 6100-226-001).*** The budget proposes $341 million to provide a three percent cost-of-living adjustment to all K–12 education programs in 1984–85. This amount includes: (1) $251 million for general education apportionments to K–12 districts (revenue limits), (2) $37.0 million for special education local assistance, (3) $17.1 million for all other programs with a statutory COLA, and (4) $35.5 million for programs without a COLA specified in statute.

• ***State Teachers' Retirement Fund (STRF) Contribution.*** The budget proposes an increase of $518 million in contributions to the STRF in 1984–85. Of this amount, $211 million is proposed to restore the statutorily-required contribution for 1983-84 which was vetoed by the Governor from the 1983 Budget Act.

• ***Increase in Local Property Tax Revenues.*** The budget estimates a net increase in property tax revenues for K-12 education of $93 million. This increase, however, does not result in additional revenues to school districts. Instead it reduces the General Fund costs of funding school apportionments on a dollar-for-dollar basis, for a savings of $93 million.

The net increase of $93 million in local property tax revenues is composed of $380 million which would otherwise offset General Fund costs to support K-12 education under existing law, *minus* $287 million in supplemental roll property tax revenues which the Governor proposes to transfer to other local government entities.

• ***Miscellaneous Local Revenue.*** School districts' miscellaneous local revenues include revenue generated from the sale of property and supplies, cafeteria revenue, interest and lease income, income from the sale of bonds, and other income. We estimate that revenues from these sources will increase by $83.5 million in 1984-85, or 8.0 percent, from the estimated current-year level of $1,040 million.

Table 3

Proposed 1984-85 Budget Changes (in millions)

	Funding Sources				
	General	*Special*	*Local*	*Federal*	*Total*
1983-84 Expenditures (Revised)	$8,397.6	$223.6	$4,199.1	$1,002.2	$13,822.5
1. Changes to Maintain Existing Base:					1,132.7
ADA increase	49.6	—	—	—	—
Financial legislation	554.3	—	—	—	—
One-time special education deficiency	−23.5	—	—	—	—
Statutory inflation adjustments:					
K-12 apportionments	455.6	—	—	—	—
Other programs with statutory COLAs	96.7	—	—	—	—
Increase in local property taxes	−380.0	—	380.0	—	—
2. Program Change Proposals:					552.2
Adjustments to statutory inflation amount:					
K-12 apportionments	−204.7	—	—	—	—
Other programs with statutory COLAs	−42.6	—	—	—	—
Discretionary programs inflation	35.5	—	—	—	—
Deferred Maintenance Fund	6.6	—	—	—	—
State Teacher's Retirement Fund	517.9	—	—	—	—
Capital outlay funds	—	175.0	—	—	—
Federal funds	—	—	—	−8.9	—
Miscellaneous local revenues	—	—	83.5	—	—
Property tax shift	287.0	—	−287.0	—	—
Local debt service	—	—	−10.1	—	—
3. All other changes	−1.5	—	—	—	−1.5
1984-85 Expenditures (Proposed)	$9,748.5	$398.6	$4,365.5	$993.3	$15,505.9
Change from 1983-84:					
Amount	$1,350.9	$175.0	$166.4	−$8.9	$1,683.4
Percent	16.1%	78.3%	4.0%	−0.9%	12.2%

DEPARTMENT OF EDUCATION—Continued

• *Other Changes.* Other changes affecting the overall level of support for K–12 education include: (1) an increase of $6.6 million for deferred maintenance from the General Fund, (2) an increase of $175 million for school construction from Proposition 1 bond funds and tidelands revenues and (3) a loss of $8.9 million in federal aid.

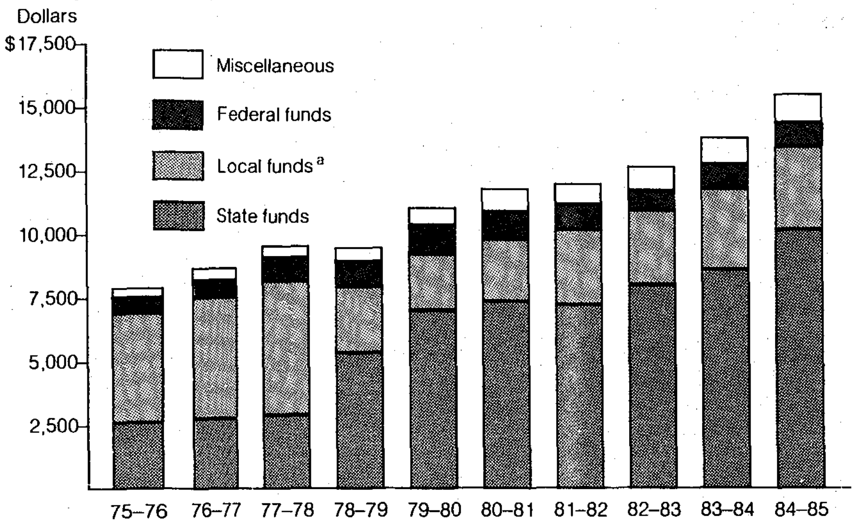
3. Ten-Year Funding History

a. Total K–12 Revenues

Table 4 and Chart 1 display total funding for K–12 education by source, for the 10 years 1975–76 to 1984–85. The principal funding sources identified in the table are as follows:

- *Local Property Tax Levies*—revenues raised by the tax on real property.
- *State Property Tax Subventions*—funds provided by the state to school districts to replace property tax revenues foregone due to tax exemptions granted by the state, such as the homeowners exemption and the business inventory exemption. (In Chart 1, state property tax subventions are included with local property tax levies.)

Chart 1
K–12 Education Revenues by Funding Source (in millions)



[a] Includes state property tax subventions

- *State Aid*—K-12 revenues provided from the General Fund and state special funds.
- *Federal Aid*—all K-12 education funds received from the federal government.
- *Miscellaneous Revenues*—combined state/federal grants, income from the sale of property and supplies, cafeteria revenues, interest income, and other revenues.

Table 4 shows that total funding for California's K-12 public schools is proposed to increase from $7,588 million in 1975-76 to $15,506 million in 1984-85. This is an increase of $7,918 million, or 104 percent, over the 10 year period. Of the five revenue sources, state aid from the General Fund and other state special funds has shown the greatest increase since 1975-76 (291 percent), while the amount of support from local property taxes and state property tax subventions has actually declined. This decline is due, in part, to the combined effects of Proposition 13 and the state's fiscal relief program established by AB 8 (Ch 282/79). The significant reduction in state property tax subventions between 1982-83 and 1983-84 reflects the elimination of funding for the business inventory exemption subvention provided for in the 1983 Budget Act. (State apportionment aid to schools was increased by an amount equivalent to their share of this subvention, resulting in no net loss of revenue.)

Average daily attendance (ADA) over the 10-year period fell 9.4 percent, from 4,760,966 to 4,313,134. Two factors explain this decline. First, the number of 5-17 year olds residing in the state declined over this period. Second, the number of summer school ADA dropped sharply between

Table 4
K–12 Total Revenues
1975–76 through 1984–85
(dollars in millions)

Year	Local Property Tax Levies [a]	State Property Tax Subventions	State Aid	Federal Aid	Miscel-laneous [b]	Total Funding	ADA	Total Funding: Per ADA	Total Funding: Percent Change	1975–76 Dollars [c]: Per ADA	1975–76 Dollars [c]: Percent Change
1975–76	$3,795.2	$485.6	$2,594.4	$591.6	$391.1	$7,587.9	4,760,966	$1,650	7.8%	$1,650	—
1976–77	4,256.1	494.0	2,764.6	644.4	495.6	8,654.7	4,718,800	1,834	11.2	1,721	4.3%
1977–78	4,728.6	516.0	2,894.9	891.5	485.6	9,516.6	4,652,486	2,045	11.5	1,786	3.8
1978–79	2,337.1	241.5	5,333.4	962.3	551.3	9,425.6	4,271,181	2,207	7.9	1,780	−0.3
1979–80	2,000.0	180.0	6,998.5	1,100.4	702.7	10,981.6	4,206,150	2,611	18.3	1,919	7.8
1980–81	2,166.2	243.6	7,348.9	1,064.7	909.5	11,732.8	4,214.089	2,784	6.6	1,868	−2.7
1981–82	2,674.1	259.5	7,207.4	966.9	821.9	11,929.8	4,202,042	2,839	2.0	1,767	−5.4
1982–83 (estimated)	2,668.5	243.6	7,985.2	857.3	956.4	12,711.0	4,229,628	3,005	5.8	1,754	−0.7
1983–84 (estimated)	3,075.9	83.2	8,621.3	1,002.2	1,039.9	13,822.5	4,265,019	3,241	7.9	1,786	1.8
1984–85 (budgeted)	3,158.7	83.3	10,147.2	993.3	1,123.4	15,505.9	4,313,134	3,595	10.9	1,865	4.4
Cumulative Change											
Amount	−$636.5	−$402.3	$7,552.8	$401.7	$732.3	$7,918.0	−447,832	$1,945	—	$215	—
Percent	−16.8%	−82.8%	291.1%	67.9%	187.2%	104.4%	−9.4%	117.9%	—	13.0%	—

Source: *Financial Transactions of School Districts, Governor's Budget* (various years).
[a] Includes local debt.
[b] Includes combined state/federal grants, county income, and other miscellaneous revenues.
[c] Adjusted by the GNP deflator for state and local government purchases.

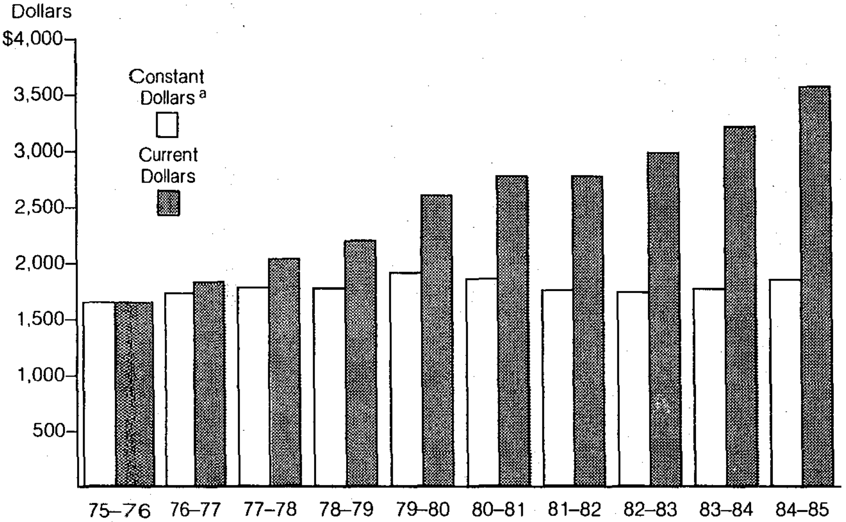
1977–78 and 1978–79, following the passage of Proposition 13. This occurred because the state withdrew support for all non-remedial summer school programs except those that were offered as part of a year-round school. Since 1981–82, however, ADA statewide has increased steadily. We expect this trend to continue throughout the decade because of (1) a projected increase in the school-age population and (2) the expansion of the summer school program authorized by SB 813.

b. Revenues Per ADA.

Table 4 and Chart 2 display per-pupil funding levels over the 10-year period in both current dollars and constant dollars (that is, dollars that have been adjusted to reflect the effects of inflation on purchasing power). The table and chart show that per-pupil funding in current dollars will have increased by almost 118 percent since 1975–76, rising from $1,650 to $3,595.

Chart 2

K–12 Education Funding Per Pupil in Constant and Current Dollars



[a] As adjusted by the GNP deflator for state/local government.

If, however, we adjust these expenditures for inflation, a different picture emerges. For 1984–85, the proposed per-pupil expenditure level as measured in constant dollars is $1,865—$215, or 13.0 percent, above the 1975–76 amount. Put another way, assuming enactment of the budget, the purchasing power of K–12 funding per pupil in 1984–85 will be 13 percent greater than it was in 1975–76. Since 1979–80, however, funding on a constant dollar basis has actually declined from $1,919 per pupil—a reduction of $54, or 2.8 percent, per ADA.

DEPARTMENT OF EDUCATION—Continued

ANALYSIS AND RECOMMENDATIONS

I. RECENT SCHOOL REFORM LEGISLATION (SB 813)

Introduction

The passage last July of Senate Bill 813 (Ch 498/83) marked the culmination of months of legislative debate in which educational reform emerged as an issue of statewide and national importance. Contributing to the concern over the state of public education was the widely-publicized report of the National Commission on Excellence in Education, *A Nation At Risk.* Issued in April 1983, this report warned that " . . . the educational foundations of our society are presently being eroded by a rising tide of mediocrity that threatens our very future as a Nation and a people." In order to turn this tide, the commission recommended reforms such as increasing the length of the school day and year, adopting more rigorous standards of student achievment, and taking various steps to strengthen the teaching profession.

The Legislature's response to the educational reform issue—the 214-page Hughes-Hart Educational Reform Act of 1983—incorporates many of the national commission's recommendations, while also addressing many other aspects of educational policy. Among other things, the act:

- Provides financial incentives to districts to increase the length of the school day and year;
- Establishes, commencing in 1986–87, statewide high school graduation requirements;
- Provides funds for the establishment of summer school programs in math, science, and "other core academic areas;"
- Provides, in 1984–85 and thereafter, a statutory cost-of-living adjustment (COLA) to school district revenue limits, tied to an inflation index;
- Provides additional funds to low-expenditure districts for *Serrano* equalization;
- Establishes a new program to provide financial rewards to high schools which demonstrate improvement in their students' academic achievement;
- Provides funds to increase beginning teachers' salaries by 10 percent per year, over a three-year period;
- Establishes a "mentor teacher" program, which provides stipends of $4,000 per year to outstanding teachers who perform additional duties;
- Provides districts greater flexibility in the layoff and dismissal of teachers; and
- Strengthens laws related to student discipline.

In this section, we present an overview of the major provisions of SB 813, briefly describing each reform and commenting on the current status of its implementation.

The overview is organized along the lines of Table 4 and contains five major components: (1) Improving Classroom Instruction, (2) Strengthening the Teaching Profession, (3) Strengthening the Administration of Schools, (4) General Finance Provisions, and (5) Studies and Commissions.

Table 4

Overview of SB 813 Showing Funding for 1983–84 and 1984–85
General Fund
(in millions)

	Estimated 1983–84	*Proposed 1984–85*[a]
A. IMPROVING CLASSROOM INSTRUCTION:		
1. Incentives for longer school day and year	—	$256.9
2. Classroom Teacher Instructional Improvement Program	—	17.1
3. Education Improvement Incentive Program	—	15.0
4. Graduation requirements	—	—
5. Instructional materials expansion	36.9	38.4
6. High school counseling	$6.2	6.6
7. Specialized secondary programs	—	2.0
8. California Academic Partnership Program	—	—
9. Expansion of the California Assessment Program	0.2	0.65
10. Golden State Examination Program	0.1	—
11. Agricultural Vocational Education Incentive Program	3.1	—
12. Strengthening student discipline	—	—
B. STRENGTHENING THE TEACHING PROFESSION:		
1. Increasing the supply of teachers		
a. Minimum teachers' salaries	12.3	24.8
b. Teacher trainees	—	—
c. Teacher shortage student loan assumption program	0.1	0.1
2. Improving the quality of the teaching profession		
a. Mentor teacher program	10.8	30.9
b. Teacher credentialing changes	—	—
c. Teacher competency evaluations	—	—
d. Layoff/dismissal of teachers	—	—
e. Substitute teachers	—	—
C. STRENGTHENING THE ADMINISTRATION OF SCHOOLS:		
1. Administrator training/pilot project for administrative personnel	—	2.25
2. Innovative local experiments to strengthen personnel and management	—	0.25
D. GENERAL FINANCE PROVISIONS:		
1. Revenue limit changes	307.2	709.8
2. Small school district funding	3.1	3.1
3. Special education adjustments	49.0	86.0
4. Adult education adjustments	7.8	18.5
5. Regional Occupational Centers and Programs[b]	—	—
6. School Improvement Program changes	—	10.3
7. Urban Impact Aid changes	—	9.2
8. Categorical programs COLAs	45.3	82.0
9. New summer school program	—	40.9
10. Incentives for year-round schools	—	7.7
11. Teacher Education and Computer Centers	—	5.1
12. Educational Technology Program	0.5	5.6
13. Expansion of opportunity classes	—	4.1
14. Transportation adjustments	—	—
15. Small school district buses	1.0	3.0
E. STUDIES AND COMMISSIONS:		
1. Commission on School Governance and Management	—	—
2. Studies of Dropouts and High School Accreditation	—	—
3. Studies of School Facilities and Architectural Standards	—	—
Other	0.8[c]	0.5[d]
Totals	$484.4	$1,380.8

[a] Includes funding to continue programs initiated or expanded in 1983–84.
[b] Funding for ROC/P COLA included in "categorical programs COLAs."
[c] Special Schools Unemployment Insurance and California Writing Project.
[d] Local Assistance Bureau staffing and California Writing Project.

DEPARTMENT OF EDUCATION—Continued

Table 4 shows the amount of funding, if any, provided for each of the act's major provisions in 1983–84 (estimated) and the amount requested for 1984–85 in the Governor's Budget. As illustrated in the table, the Governor's Budget proposes $1,380.8 million to fund provisions of SB 813 in 1984–85, including $480.7 million to continue programs initiated or expanded in 1983–84.

Our review indicates that, for most of the *new programs* created by SB 813, the Governor's Budget provides "full funding." Our review also indicates, however, that the budget fails to provide full funding for the statutory COLAs—established either in SB 813 or in prior law—for school district and county office revenue limits, special education, adult education, and several categorical programs. Instead, the budget proposes a 3 percent COLA for all of these programs, in lieu of the amounts specified in law. (The budget also proposes a 3 percent COLA for those categorical programs which have no statutory COLA.)

We estimate that, in order to provide full funding for those programs which have statutory COLAs, while continuing to provide a 3 percent discretionary COLA to the remaining programs, the Legislature would need to augment the Governor's Budget by approximately $250 million. This issue (as well as other issues related to the implementation of SB 813) is discussed in more detail in the text which follows.

A. IMPROVING CLASSROOM INSTRUCTION

Senate Bill 813 created a number of new programs, and expanded existing programs, aimed at improving classroom instruction. These reform elements, which are discussed in this section of the overview, include:

- Incentives for longer school day and school year,
- Classroom Teacher Instructional Improvement Program,
- Education Improvement Incentive Program,
- Graduation requirements,
- Instructional materials,
- High school counseling,
- Specialized secondary programs,
- California Academic Partnership Program,
- California Assessment Program,
- Golden State Examination Program,
- Agricultural Vocational Education Incentive Program, and
- Student discipline.

1. Incentives for Longer School Day and School Year

In order to increase the amount of instructional time offered students in California, SB 813 provides fiscal incentives to school districts to lengthen the school day and year. The measure does not *mandate* an increase in either the minimum instructional offering per day or the length of the school year. Thus, the extent to which the school day and school year are increased will be decided by the officials of each local school district.

The incentive funding provisions of SB 813 commence in 1984–85. The measure, however, requires districts to maintain the same amount of instructional time in 1983–84 as was offered in 1982–83. If a district fails to maintain the 1982–83 level, the Superintendent of Public Instruction is required to reduce the district's apportionment by the amount of its 1983–84 cost-of-living adjustment (COLA). Moreover, the amount of instructional time offered in 1982–83: (1) establishes a "floor" under which a district may not fall in any subsequent year without forfeiting its COLA increase for that year and (2) establishes the base against which increases in instructional time are measured, for purposes of the incentive program.

In 1984–85, SB 813 offers school districts two incentives to increase instructional time. The first provides $35 per ADA, excluding adult and summer ADA, to districts that offer a 180-day school year. The measure leaves unchanged the statutory minimum school year of 175 days. Under the provisions of SB 813, if a school district offers a 180-day program in 1983–84, it is not required to add any additional days of instruction to qualify for the incentive funds. All that is required is that the 180-day school year be offered in 1984–85. If the district's school year falls below 180 days in any subsequent year, however, the $35 per ADA is lost in that year.

The act's second incentive encourages districts to increase the *total* instructional time offered to their students over a three-year period by providing additional funds if certain target levels of instruction are met. Again, districts are not required to participate in the program. Table 5 displays the length of the minimum school year for each grade level as required under current law and the optional target levels for 1986–87 established by SB 813. We note that SB 813 establishes goals in terms of "total minutes per year", rather than in terms of minutes per day and days per year.

Table 5
Minimum School Year
Current Law and SB 813 Targets for 1986–87

	Current Law			*SB 813 Minutes Per Year in 1986–87*	*Change*	
Grade	*Minutes per Day*	*Days per Year*	*Minutes per Year*		*Amount*	*Percent*
K	180	175	31,500	36,000	4,500	14.3%
1–3	230	175	40,250	50,400	10,150	25.2
4–8	240	175	42,000	54,000	12,000	28.6
9–12	240	175	42,000	64,800	22,800	54.3

Specifically, the measure provides each district with an additional $20 per ADA for grades K–8 and $40 per ADA for grades 9–12 *if* the district increases the total instructional time offered in *each* of the four grade categories by an amount equal to one-third of the difference between the 1986–87 target levels and the amount of instructional time offered in 1982–83. The *additional* $20 or $40 per ADA is provided each year through 1986–87, as long as the district continues to increase instructional time by one-third of the original difference. Thus, the cumulative funding adjustment for the three-year period would be either $60 or $120 per ADA. If a district drops below the target levels in any grade category for a given year, it loses the funding bonus associated with that year. The measure also specifies that a district must begin its participation in the program in 1984–85 if it is to qualify for any incentive funds in any of the three years.

Implementation Status. The measure appropriated $257 million to

DEPARTMENT OF EDUCATION—Continued

fund the 1984–85 incentive costs, but these funds were vetoed by the Governor. The Governor's Budget, however, proposes $257 million for this program in 1984–85.

Implementation of this program to increase the length of the school year and school day raises several major policy issues which may require legislative attention in the upcoming months. Assuming all districts qualify for both incentive payments in 1984–85, we estimate that the cost of the program will be $248 million in the first year. (To the extent that fewer districts participate in the program, the first-year costs will, of course, be less.) Given the state's commitment to this program and the significant costs of the program, we believe that the Legislature needs to consider two questions: (1) How much additional instructional time will $248 million buy? and (2) How effective is increasing instructional time in improving student achievement?

- ***How Much Additional Instructional Time Will $248 Million Buy?*** Excluding funding for general revenue limit increases, the incentives to increase the length of the school day and school year constitute SB 813's single most expensive program in 1984–85. Because both the Legislature and the Governor have indicated a willingness to commit a major amount of state funds to this program, it is important to find out just how much instructional time will be added in 1984–85. In order to do so, we must first determine the amount of instructional time currently being offered by the state's 1,029 school districts.

A survey conducted in the fall of 1983 by the Department of Education suggests that districts are offering significantly more instructional time than the minimums required by current law. In this survey, the department sampled 40 districts, each having at least 8,000 ADA. These districts accounted for 1,045,125 ADA, or roughly one-quarter of the statewide total. Table 6 displays the total instructional time (1) *required* as a result of the statutory minimum day and year, (2) *currently offered* by the average district in the SDE survey sample, and (3) *desired by the Legislature,* as reflected in the SB 813 target levels for 1986–87.

The department found that 31 of the 40 districts sampled offered either 175 days or 176 days of instruction. Seven districts offered 177 days and two offered more than 178 days. The sample average was 176 days of instruction for the school year.

The length of the instructional day varied considerably more from district-to-district than did the length of the school year. The department found that, for kindergarten programs, the length of the school day tended toward the statutory minimum—27 of 30 districts offered 180 minutes and 3 offered 200 minutes. For grades 1–3, the instructional day ranged from 240 minutes to more than 300 minutes, and for grades 4–8, the range was from 300 minutes to more than 340 minutes. Of the four grade level groups specified in SB 813, the length of the school day for high school students varied the most. The instructional day for these students ranged from 275 minutes to more than 360 minutes.

The data in Table 6 show that, for each grade level, the SDE sample average exceeded the statutory minimum requirements, with higher

Table 6

Instructional Time by Grade Level

	Required (Current Law Minimums)			Currently Offered (SDE Sample Average[a])			Desired (SB 813 Targets for 1986–87[b])		
Grade Level	*Minutes per Day*	*Days per Year*	*Minutes per Year*	*Minutes per Day*	*Days per Year*	*Minutes per Year*	*Minutes per Day*	*Days per Year*	*Minutes per Year*
Kindergarten	180	175	31,500	182	176	32,032	200	180	36,000
1–3	230	175	40,250	271	176	47,696	280	180	50,400
4–8	240	175	42,000	312	176	54,912	300	180	54,000
9–12	240	175	42,000	328	176	57,728	360	180	64,800

[a] Based on a 40 district sample, simple average (unweighted by ADA). Source: State Department of Education.

[b] Assumes a 180 day instructional year. Senate Bill 813 expresses target levels in minutes per year only; consequently, districts are allowed to increase the length of the school day, the length of the school year, or both to qualify for the incentive funds.

DEPARTMENT OF EDUCATION—Continued

grade levels exceeding the minimums by wider margins. The data also show that *the average school district in the sample has already met the SB 813 1986–87 target level for grades 4–8.* This means that, without changing the amount of instructional time offered students in these grades, many districts would qualify for the $20/ADA incentive funds for each of the three years commencing in 1984–85—provided the instructional program for the other grade levels met the annual target levels.

Table 7 displays the SB 813 annual target levels for the average district in the SDE sample, assuming that the amount of time offered in 1983–84 equals the amount offered in the 1982–83 base year.

Table 7

Annual Targets for Instructional Time Assuming SDE Sample Averages (Minutes Per Year)

Grade Level	*SDE Averages 1982–83*	*SB 813 Target Levels 1984–85*	*1985–86*	*1986–87*
Kindergarten	32,032	33,355	34,677	36,000
1–3	47,696	48,597	49,499	50,400
4–8	54,912	N/A	N/A	54,000
9–12	57,728	60,085	62,443	64,800

We have provided the data in Table 7 because SB 813 provides for instructional time to be measured in minutes per year for the purpose of determining the target levels. Unfortunately, expressed in this way, the instructional year has little meaning to most people. In Table 8, we show how the average district in the SDE sample might increase the instructional time in order to meet the first year of the SB 813 targets in order to qualify for the incentive funds.

Table 8

Ways to Meet the SB 813 Targets in 1984–85 [a]

In Order to Qualify For	*The Average District Could*	*The Change Would Yield Minutes/Day*	*Days/Year*	*Minutes/Year*
Kindergarten				
$55/ADA	Add 4 days *and* 4 minutes/day	186	180	33,480
$35/ADA	Add 4 days	182	180	32,760
$20/ADA	Add 8 minutes/day	190	176	33,440
Grades 1–3				
$55/ADA	Add 4 days	271	180	48,780
$35/ADA	Add 4 days	271	180	48,780
$20/ADA	Add 6 minutes/day	277	176	48,752
Grades 4–8				
$55/ADA	Add 4 days	312	180	56,160
$35/ADA	Add 4 days	312	180	56,160
$20/ADA	No change required	312	176	54,912
Grades 9–12				
$75/ADA	Add 4 days *and* 6 minutes/day	334	180	60,120
$35/ADA	Add 4 days	328	180	59,040
$40/ADA	Add 14 minutes/day	342	176	60,192

[a] District must meet targets in *all* grade groups offered, in order to receive incentive funds noted for any grade group.

As discussed earlier, in 1984–85 a school district may qualify for the incentive funds by (1) increasing the school year to 180 days, (2) increasing the total instructional time offered over the course of the year sufficiently to move one-third of the way toward the 1986–87 target level, or (3) doing both. The district receives $35/ADA for offering a 180-day school year. It receives $20/ADA for grades K–8 and $40/ADA for grades 9–12, for reaching the SB 813 target levels for total instructional time. If both requirements are met, the district is entitled to $55/ADA or $75/ADA, depending on the grade level.

Senate Bill 813 specifies that the incentive payments are made to each district that meets the instructional time target levels. The measure provides no allowances to a district that meets the targets in some grades but not in others. Therefore, a district must meet the target level in *each* grade if it is to qualify for *any* incentive award. Partial fulfillment of the SB 813 standards will provide the district with no additional support.

The data in Table 8 show that the average high school district in the SDE sample would have to add only four days to its school year and six minutes per day to qualify for the maximum incentive award of $75/ADA. The average K–8 elementary district in this sample would have to add four days to the school year and four minutes to its kindergarten program, in order to qualify for the $55/ADA bonus. The average elementary district in this sample need not increase the length of the instructional day for grades 1–8 if the 180-day school year is provided, because the target requirements will be satisfied with the addition of the four days.

The data in Table 8 suggest that, *if a district first decides to increase the length of its school year to qualify for the $35/ADA payment, then very little additional time may be required in order to qualify for the $20/ADA or $40/ADA incentive funds provided for attaining the SB 813 target level in 1984–85.* Consequently, most districts that qualify for the school year award probably will also qualify for the bonus provided for meeting the targets on total instructional time.

If the SDE sample is representative of the state as a whole, we may infer that, on average, the first-year effect of SB 813 will be to add four days to the school year and several minutes to the instructional day for selected grade levels. Some districts may choose to provide more than 180 days of instruction and leave unchanged the length of their instructional day. In this case, the average district would need to add eight—rather than four—days to its school year, in order to receive the maximum incentive award.

• ***How Effective Is Increasing Instructional Time In Improving Student Achievement?*** While it is commonly believed that increasing the time available for instruction will result in improved student achievement, research in this field has not demonstrated that this is the most cost-effective way to accomplish this objective. Other instructional alternatives of comparable cost may be even more effective in increasing student achievement.

Because the SB 813 program involves ongoing costs which, in three years, may exceed $450 million annually, we believe it would be useful to examine some of the results of studies on the efficacy of increasing instructional time in improving student learning.

Two national commissions—the National Commission on Excellence in Education and the Task Force on Education for Economic Growth of the Education Commission of the States—recently have recommended that instructional time be added to the school day and that days be added to the school year as a means of increasing student achievement. The Na-

DEPARTMENT OF EDUCATION—Continued

tional Commission on Excellence in Education, in its report *A Nation At Risk*, specifically recommended that the school day be increased to seven hours and that the school year be increased to 200–220 days. Moreover, in the *Beginning Teacher Evaluation Study (BTES)*, sponsored by the California Commission on Teacher Preparation and Licensing, the researchers found that the total amount of time a student spends in a specific curriculum area is positively related to achievement in that area.

Others, however, caution that these findings should be interpreted with care. Critics point out that the findings of some of the national studies were based upon comparisons of student achievement in the United States with student achievement in other countries requiring significantly longer school days and a longer school year. They assert that the comparisons may not be valid, since in the United States, a public K–12 education is available to all children whereas in other countries, the same is not true. Countries which educate only the most talented students would be expected to outperform the U.S. when the basis of comparison is average test scores. When comparisons are made between similar groups of students in the U.S. and other countries, differences in student achievement are reduced considerably and cannot be fully explained by differences in instructional time.

The results of the BTES study should also be interpreted with caution. The critics indicate that the study was based on a limited sample of 46 teachers and 261 students in two grade levels in California. In 65 percent of the analysis of "time on task," the results were not significant, based on statistical tests. In addition, the results often were inconsistent between grades. Moreover, other studies found that the level of achievement gain relative to increases in instructional time varied by subject. While research has found that gains in foreign language comprehension are strongly related to increased instructional time, increased instructional time in other subjects produces, at most, modest results.

Some researchers assert that it is not enough to mechanically increase instructional time. Care must be taken to insure that the additional time is utilized productively if student achievement is to be improved. Achievement gains can be secured even within the existing instructional day and year if the amount of time actually spent by students on learning activities is selectively increased. Programs to motivate students to increase their effort in learning also produce positive results. Some point out that programs which do no more than mechanically increase instructional time actually may *reduce* achievement for some students. Those who are bored and receive no reward in the current program may in fact reduce their effort when the instructional day is increased.

Because SB 813 establishes incentives to increase instructional time in the manner that these critics warn against, local educators must ensure that both the existing program and the additional instructional time are utilized productively.

2. Classroom Teacher Instructional Improvement Grants Program

Senate Bill 813 establishes the Classroom Teacher Instructional Improvement Program, to take effect on July 1, 1984. Under this program, each applicant school district will be allocated, from funds appropriated in the Budget Act, an entitlement equal to $2,000 times 5 percent of the number of teachers in the district who are eligible to receive grants. Full-time classroom teachers, with the exception of teachers in adult education, child care, and regional occupational centers and programs, are eligible to apply to the district for grants of up to $2,000 per teacher which will be used to improve the quality of instruction. District governing boards shall award the grants "in those areas of the district with greatest need," based on an allocation plan and recommendations submitted by the district's instructional improvement grant committee. A majority of each grant committee must consist of teachers, but at least one member must be a school principal.

Implementation Status. Senate Bill 813 contained an appropriation of approximately $18.6 million for the instructional improvement program in 1984–85, but the Governor vetoed these funds. The legislation also expresses the Legislature's intent that the annual Budget Act include funds for the program, in an amount equal to $2,000 times 5 percent of the number of eligible teachers. The Governor's Budget proposes $17.1 million to fund the program in 1984–85.

The Classroom Teacher Instructional Improvement Program appears to be similar to the School Improvement Program (SIP). In both cases, schools receive grants for instructional improvement, based on plans developed by local committees or councils. In the SIP, however, the local school site councils appear to have more authority over the manner in which funds are allocated, and grants are awarded on the basis of grade level and pupil enrollment. SIP grants are also likely to be larger than Instructional Improvement Program grants, due to the difference in statutory funding rates.

3. Education Improvement Incentive Program

The Education Improvement Incentive Program (EIIP), created by SB 813, is designed to test the effectiveness of fiscal incentives in improving the academic performance of schools. Beginning in 1984–85, the program provides incentive funds of up to $400 per pupil to participating schools which demonstrate an improvement over their prior year's scores on the 12th grade administration of the California Assessment Program (CAP) test.

The act requires the Superintendent of Public Instruction to select, by January 31, 1984, a sample of high schools to participate in the EIIP on a voluntary basis. The State Board of Education (SBE) is then required to calculate for each participating school a composite rating based on its students' performance on the 12th grade CAP test in 1983–84. In 1984–85, the SBE is to identify those schools in the sample which showed an improvement over their composite ratings in the prior year. These schools will be eligible to receive incentive funds.

Under SB 813, the distribution of the incentive funds would occur as follows. For each school demonstrating improvement, the change in its composite rating would be multiplied by the number of its students taking the test in that year. These products would then be summed to produce a total increase in academic performance for the sample as a whole. Each school district would earn a pro rata share (not to exceed $400 per pupil) of the total amount appropriated for incentive funding, equal to the contribution it made to the total increase in academic performance. Thus, the amount of incentive funds received by any participating school would depend on three factors:

- the total amount of incentive funds appropriated in the 1984 Budget Act for the EIIP,
- the number of other schools selected to participate in the pilot program, and

DEPARTMENT OF EDUCATION—Continued

- the school's proportional contribution to the sample's overall improvement in academic performance.

Implementation Status. Senate Bill 813 appropriated approximately $7.2 million to implement the EIIP on a pilot basis in 1984–85. This appropriation was vetoed by the Governor. The Governor's Budget, however, proposes that the program be funded *at a level of $15 million* in the budget year.

Senate Bill 813 does not specify the size of the sample of schools to be used in the pilot implementation of the Education Improvement Incentive Program. Subsequent to the enactment of SB 813, however, the Legislature approved the creation of a similar program by passing SB 1086. Under this program, *all* high schools statewide would compete for an appropriation of $50 million in incentive funds. This legislation was vetoed by the Governor.

Based on legislative intent as expressed in SB 1086, the State Department of Education (SDE) has proposed that the size of the sample authorized by SB 813 be such that the amount of incentive funds received by each eligible school would be roughly the same as the amount it would receive in a statewide, $50 million program. Thus, if the Legislature were to appropriate $15 million for the EIIP in the 1984 Budget Act, SDE would include in the sample 30 percent (15/50) of the eligible schools statewide.

The Legislature will, of course, need to decide the appropriate level of funding for the pilot EIIP in 1984–85. In addition, the Legislature may wish to specify (1) a different sampling approach than that contemplated by the State Department of Education and (2) a different reward structure than that provided in SB 813.

The sampling approach proposed by SDE—based on a single sample of schools, each of which faces the same reward structure—would not provide the Legislature with any information on how the *size* of reward offered affects improvements in academic performance. Moreover, because the amount of incentive funds which a school receives under the EIIP will depend, in part, on the performance of other schools, administrators are not presented with a clear picture of the financial payoff for success. Both of these factors will make it very difficult to use the results of the pilot program, as SDE intends to administer it, in determining an appropriate level of funding for statewide implementation of the EIIP.

An alternative pilot program design could, however, be specified which would avoid the problems just noted. Under this approach, SDE would select several sub-samples of schools to participate in the pilot program, with each sub-sample offered a different (more or less generous) reward structure. For each sub-sample, the rewards associated with a given increase in academic performance would be clearly specified in advance. The results of such a pilot program could then be used to determine (1) *whether* incentive awards make a difference in academic performance and (2) *how much* additional improvement may be expected for a given level of funding.

We discuss these issues related to the Education Improvement Incentive Program later in this *Analysis.*

4. Graduation Requirements

Senate Bill 813 establishes, commencing in 1986–87, the following statewide minimum requirements for high school graduation:

- three years of English,
- three years of social studies,
- two years of mathematics,
- two years of science,
- one year of fine arts or foreign language, and
- two years of physical education.

Current requirements, which remain in effect until July 1, 1986, provide that each pupil must take English, American history and government, mathematics, science, and physical education, but there is no specified number of courses to be completed.

Senate Bill 813 directs the Superintendent of Public Instruction to propose, and the State Board of Education to adopt by January 1, 1985, model curriculum standards for the required courses. School district governing boards are, in turn, required to compare their curricula to these standards at least once every three years. Senate Bill 813 also requires the State Board of Education to submit to the Legislature, by July 1, 1984, a model course of study for computer education in grades K–12.

Finally, the act requires every school district maintaining any of grades 7 through 12 to offer a course of study which (1) fulfills the admission requirements of the California State University and the University of California and (2) provides an opportunity to attain entry level employment skills in business or industry.

Implementation Status. Because the new graduation requirements will apply to pupils currently in the 9th grade, schools have begun to revise their curricula accordingly.

The ability of school districts to implement the graduation requirements may be restricted by shortages of teachers in particular fields, such as math and science. Although districts are prohibited from offering higher salaries to teachers in "shortage" disciplines, SB 813 includes other provisions designed, in part, to address the shortage problem. These include higher salaries for beginning teachers, the teacher shortage loan assumption program, and the teacher trainee certificate. It is too early to determine, however, whether these provisions will be sufficient to eliminate existing shortages and meet the additional demands that will be created by the new graduation standards.

In imposing statewide graduation requirements, SB 813 creates a state-mandated program for which school districts may seek reimbursement pursuant to Article XIII B of the California Constitution. The Legislature attempted to mitigate the extent of these mandated costs by permitting school districts (1) to lay off teachers "whenever the amendment of state law requires the modification of curriculum," and (2) to deviate from seniority order in layoffs when the district demonstrates "a specific need for personnel to teach a specific course." Thus, SB 813 grants school districts additional flexibility in restructuring the composition of the teaching staff—using layoffs as necessary—in order to implement the new graduation requirements. School districts may still incur reimbursable costs, however, to the extent that the salaries of newly-hired teachers exceed those of the teachers that were dismissed.

DEPARTMENT OF EDUCATION—Continued

5. Instructional Materials Expansion

Senate Bill 813 provides, for the first time, an annual apportionment of $14.41 per pupil in grades 9–12 for purchase of instructional materials, beginning in 1983–84. This was done in recognition of the importance of adequate instructional materials in raising student achievement. In order to receive an allocation for the purchase of instructional materials, districts must certify that the expenditure of these funds are "in excess of what would otherwise have been expended for instructional materials in grades 9 through 12."

Previously, categorical state funding for textbook purchases was provided only for pupils in grades K–8, at a statutory rate of $21.18 per ADA in 1983–84, adjusted annually for inflation. High schools purchased instructional materials using their regular apportionment funds.

Implementation Status. Senate Bill 813 appropriates approximately $36.9 million for instructional materials in 1983–84, of which an estimated $18.2 million is designated for grades 9–12, and $18.7 million is to supplement the $40.7 million Budget Act appropriation for grades K–8 in order to fund the statutorily authorized rate. The bill contained an appropriation to continue this funding level, plus a COLA, in 1984–85, but the Governor vetoed these funds. The Governor's Budget proposes to fund the statutory rates, adjusted for a 3 percent COLA, in 1984–85, for a total of $79.1 million. This is $572,000 less than the amount authorized by SB 813. Our recommendations on the budget request appear later in this *Analysis.*

6. High School Counseling

Senate Bill 813 establishes a permissive program for counseling high school pupils. Under this program, each pupil shall receive, prior to age 16 or the end of the 10th grade (whichever occurs first), a review of his or her academic progress and counseling regarding educational and career options. Priority is to be given to pupils who are not earning credits at a rate which will enable them to graduate with their class.

Senate Bill 813 authorizes an allocation to school districts adopting the counseling program of $20 per pupil in grade 10. These funds must be used to supplement, rather than supplant, existing funding for counseling services.

Implementation Status. Senate Bill 813 included an appropriation of approximately $6.2 million per year for high school pupil counseling in 1983–84 and 1984–85, but the second-year appropriation was vetoed by the Governor. The Governor's Budget, however, proposes $6.6 million for the program in 1984–85, in order to fund the authorized $20 per pupil. This level assumes that every high school in the state will qualify for funding.

By itself, the SB 813 allocation is not sufficient to implement a major counseling program. A high school district with 2,500 10th grade pupils, for example, would receive $50,000, which generally would provide funding for two counselors. The SB 813 funds, however, could provide an incentive for districts to enhance their existing counseling program. According to Department of Education guidelines, school districts must adopt a counseling program plan which conforms to the requirements of SB 813 in order to receive the state allocation. The department intends to monitor and evaluate district programs on a sample basis.

7. Specialized Secondary Programs

Senate Bill 813 permits school districts to apply to the Superintendent of Public Instruction to establish high schools (grades 9–12) with specialized curricula in high technology, performing arts, or "other special curricular areas." The act requires faculty members in such schools to develop model curricula, to be reviewed by the Superintendent of Public Instruction and made available to other school districts. Specialized high schools may employ noncredentialed teachers if they possess unique skills from business, performing arts, or postsecondary institutions.

Implementation Status. Senate Bill 813 requires the Superintendent of Public Instruction to allocate funds for start-up costs of specialized high schools, beginning in 1984–85. The bill contained an appropriation of approximately $2 million for this purpose. These funds were vetoed by the Governor; however, the Governor's Budget for 1984–85 proposes $2.0 million for the specialized schools. The State Department of Education expects to issue guidelines for the program in March, 1984.

Authorization of specialized high schools raises several issues:

- ***Should there be an evaluation of the program?*** The act includes no provision for such an evaluation.
- ***Should districts be required to use existing facilities and/or course offerings, if feasible, in implementing specialized programs?***
- ***Is start-up funding necessary?*** In the past, some districts have initiated schools emphasizing special curricula—either as "magnet schools" or "alternative schools"—without receiving separate funding for start-up costs.
- ***If the Legislature appropriates funds for start-up costs of specialized high schools in 1984–85, should these funds be allocated equally to all schools (on a per-ADA basis, for example) or should they be disbursed on the basis of demonstrated need?***
- ***Should the state actively pursue donations from the private sector for support of this program?*** The high visibility and specificity of training offered by these schools should make them attractive to corporate benefactors.

These questions indicate the need to assess the program before proceeding with implementation on a large scale. We make specific recommendations on the specialized secondary program later in this *Analysis.*

8. California Academic Partnership Program

Senate Bill 813 establishes, effective in 1984–85, the California Academic Partnership program, to be administered by the Trustees of the California State University (CSU). The purpose of the program is to provide academic and counseling services to students in grades 7–12 and to increase the involvement of postsecondary institutions in improving the quality of secondary schools. Grants are awarded by the Chancellor of the CSU, with the assistance of a program advisory committee consisting of nine members, as specified in SB 813.

Under this program, a postsecondary education institution or a consortium of such institutions, in cooperation with a school district, may apply for a matching grant for any of the following purposes:

- counseling services for pupils in grades 7–12,
- tutorial services for pupils in grades 7–12,
- participation of college faculty in efforts to improve secondary schools,

DEPARTMENT OF EDUCATION—Continued

- employment of postsecondary student peer counselors,
- in-service training for secondary school staff,
- involvement of teacher education programs in the improvement of secondary schools, or
- assisting school districts to upgrade the school curriculum.

In awarding the grants, CSU must give priority to schools participating in the University and College Opportunities program, authorized by Ch 1298/82. Under this program, school districts are permitted to use "existing local or categorical funds" to establish college preparatory programs designed to increase the enrollment of under-represented minorities in postsecondary education institutions—particularly in the fields of mathematics, science, and others that are technology based. CSU must give second priority in awarding partnership program grants to schools with low pupil participation in postsecondary education institutions.

The act directs the California Postsecondary Education Commission (CPEC) to evaluate the partnership program. The evaluations, to be submitted on a periodic basis, must assess the effectiveness of the program, and must include indicators of changes in dropout rates and pupil enrollment in postsecondary institutions.

Implementation Status. Senate Bill 813 included an appropriation of approximately $1 million for the academic partnership program in 1984–85, but the Governor vetoed these funds. The budget proposes no funding for the program in 1984–85.

The academic partnership program raises several questions that the Legislature may wish to consider:

- ***Is CSU the appropriate entity to award the grants?*** Presumably, individual CSU campuses will be competing with other colleges and universities for these grants. An alternative would be to assign this function to the program advisory committee.
- ***Is the allocation of state-funded grants to participants in the University and College Opportunities (UCO) program contrary to prior legislative intent?*** In enacting the UCO program, the Legislature declared its intent that funding be derived "from existing funds apportioned to participating school districts so as to result in no additional costs to the state." The academic partnership program appears to provide, at least indirectly, a means of support for the UCO program by using new state funds.
- ***Does the partnership program duplicate other programs?*** Both the University and College Opportunities program and the Mathematics, Engineering, Science Achievement (MESA) program are designed to increase the enrollment of under-represented minorities in university and college programs, primarily in mathematics, engineering, and science. We recommend later in this *Analysis* that the Department of Education evaluate the merits of consolidating the three programs.

9. Expansion of the California Assessment Program

The California Assessment Program (CAP) is designed to provide the public, the Legislature, and local school districts with information regarding the level of K–12 student performance in the state. Under this program, standardized achievement tests are administered to all public school students at specified grade levels, with results reported on a schoolwide and districtwide basis. Prior to the enactment of SB 813, CAP tests were administered to students in grades 3, 6, and 12. In addition, the range of subject matter tested was limited by statute to "basic skills courses," such as reading, writing, and basic mathematics.

Senate Bill 813 authorizes the expansion of the California Assessment Program to include the testing of students in grades 8 and 10. The act further authorizes the State Board of Education to expand the range of subject matter tested to include higher-level "content courses," such as literature, history, advanced mathematics, and science. Finally, the act authorizes the Superintendent of Public Instruction to expand the pool of questions used in the 12th grade test to the extent necessary in order to obtain accurate estimates of schools' performance for purposes of the new Educational Improvement Incentive Program (discussed previously).

Implementation Status. Senate Bill 813 appropriated $200,000 annually to the Superintendent of Public Instruction in 1983–84 and 1984–85, to fund the expansion of CAP to grades 8 and 10. The Governor's Budget provides $475,000 *in addition to* the $200,000 statutory appropriation in 1984–85, bringing the total amount for expansion of CAP to $675,000 in the budget year.

At the time this *Analysis* was written, the State Department of Education had completed the development and pilot testing of the 8th grade CAP test. The department intends to administer this test statewide for the first time in the spring of 1984. With the $675,000 proposed in 1984–85, the department intends to (1) develop and implement a 10th grade test which includes an assessment of higher-level skills in science and social studies and (2) expand the range of subject matter tested in the 8th grade to include these areas and (3) administer the 8th grade test in 1984–85. In addition, the department proposes to use $200,000 of this amount to report CAP test scores on an individual student basis in grades 8 and 10. We discuss these issues in greater detail later in this *Analysis.*

10. Golden State Examination Program

Senate Bill 813 establishes the Golden State Examination Program, to recognize the achievement of high school students in specified academic areas. Specifically, the act requires the Superintendent of Public Instruction, in consultation with representatives of public schools and institutions of higher education, to develop academic subject matter examinations in each of the following areas by March 15, 1985:

- English literature and composition,
- Mathematics,
- Laboratory sciences,
- Foreign languages,
- United States history,
- Health sciences, and
- Other areas designated by the Superintendent of Public Instruction.

Under the provisions of the act, students in participating school districts would be eligible, on a voluntary basis, to take any of the examinations offered. A student attaining a qualifying score would receive an honors designation in the tested subject, which would be affixed to his or her high school diploma. The act also declares legislative intent that school districts encourage local businesses to "recognize" pupils who achieve an honors designation on the Golden State examination.

Implementation Status. Senate Bill 813 appropriated approximately $128,000 to the State Department of Education (SDE) for the initial costs of developing examinations during 1983–84. (This level of funding was

DEPARTMENT OF EDUCATION—Continued

based on the estimated costs of developing two subject matter exams.) At the time this *Analysis* was written, SDE was exploring the possibility of contracting with a private testing organization for development of the Golden State exams and none of the funds appropriated for 1983–84 had been expended. The Governor's Budget provides no funds for this program in 1984–85.

11. Agricultural Vocational Education Incentive Program

Senate Bill 813 creates the Agricultural Vocational Education Incentive Program, under which the Superintendent of Public Instruction may award grants to school districts, on a matching basis, for the purchase or lease of equipment (defined as nonsalary items) for agricultural vocational education. The superintendent may waive the matching requirement if it would create a financial hardship for the district.

This new program was first proposed during the latter stages of the SB 813 conference committee's deliberations. Staff in the Department of Education subsequently informed us that the proposal stems from a December 1982 report prepared by the Agricultural Vocational Education Advisory Committee. The committee developed 15 program standards for vocational education in agriculture (one of which related to facilities, equipment, and supplies), and estimated that an additional $6 million would be needed to meet the 15 standards. The report, however, does not indicate how this estimate was made, nor does it specify how much of the $6 million would be required for facilities, equipment, and supplies.

Implementation Status. Senate Bill 813 appropriates $3.1 million for the agricultural vocational program in 1983–84. The bill does not include an appropriation for the program in 1984–85, and the Governor proposes no additional funding in the budget year.

Under regulations developed by the State Department of Education, schools were permitted to apply for a maximum of $12,500 per agricultural vocational education teacher (full-time equivalent). The department received applications for funding from 269 schools, requesting a total of $4.3 million. Based on evaluations by "review teams," the department allocated the available $3.1 million. None of the applicant schools was denied funding. Awards ranged from $574 to $62,500 per school site, with the average being $11,400.

12. Strengthening Student Discipline

Senate Bill 813 makes several changes designed to strengthen laws governing student discipline. Specifically, school principals are required to recommend expulsion of pupils engaged in any of the following acts: (1) causing serious physical injury to another person, except in self-defense; (2) possession of any firearm, knife, explosive, or other dangerous object of no reasonable use to the pupil at school; (3) unlawful sale of any controlled substance (except for the sale of not more than one ounce of marijuana); and (4) robbery or extortion. Prior to SB 813, principals were permitted—but were not required—to recommend expulsion for these offenses.

The measure also:

- allows districts to adopt regulations authorizing teachers to assign failing grades to pupils with excessive unexcused absences,
- prohibits students suspended from one class from being placed in another regular class,

- allows teachers to require make-up work by suspended pupils, and
- requires school districts, upon a student's classification as truant, to provide notification to the pupil's parent or guardian by first-class mail or other reasonable means.

Implementation Status. At the time this *Analysis* was written, school district governing boards had revised—or were in the process of revising—their procedures relating to student discipline to conform with the new state laws. In the course of our field visits, we found school district administrators to be generally supportive of these discipline provisions.

School districts may incur additional costs in complying with the requirement that parents of truant pupils be notified of their child's truancy. Districts may claim state reimbursement for these costs, pursuant to Article XIII B of the California Constitution. We have no estimate, however, regarding the potential state liability for such claims.

B. STRENGTHENING THE TEACHING PROFESSION

A major component of the SB 813 reforms is the strengthening of the teaching profession. The discussion which follows is divided into two parts: The first considers those elements aimed at increasing the *supply* of teachers. The second considers those elements aimed at improving the *quality* of the teaching profession.

1. Increasing the Supply of Teachers

a. *Minimum Teachers' Salaries.* In order to increase the attractiveness of the teaching profession, SB 813 (as amended by AB 70) provides reimbursements to school districts and county offices of education that increase salaries paid beginning teachers. Specifically, the act provides that the state will reimburse districts and county offices for the costs of increasing the lowest salary on the teachers' pay schedule by 10 percent per year in 1983–84 to 1985–86, to a maximum of $18,000 (adjusted annually for inflation). These local education agencies are also entitled to state reimbursement of (1) any costs incurred in bringing existing teachers' salaries up to the new minimum salary level and (2) the costs of increased contributions to the State Teachers' Retirement System which are attributable to the minimum salary adjustment. (The employers' contribution rate currently equals 8 percent of the teacher's salary).

Under this program, districts and county offices may receive reimbursement for increasing the salaries of only those teachers who (1) hold a valid California teaching credential, (2) possess a baccalaureate or higher degree, and (3) receive a salary paid from the agency's general fund. School districts and county offices must also certify that the increase in minimum teacher's salaries did not require an increase in other teachers' salaries on the pay schedule. Any funds which a district or county office receives under this program will be permanently built into its base revenue limit in succeeding years.

Table 9 presents an example of how the minimum teachers' salaries provision of SB 813 would affect the salary schedule of a hypothetical school district. This table shows two salary schedules—one before the school district increases its minimum teachers' salaries, and the other after these increases are made. Although the salaries shown in the schedule are hypothetical, the form of the schedule—in which a teacher's salary is based solely on a combination of his or her academic training and years of teaching experience—is typical of schedules used by California school districts generally.

DEPARTMENT OF EDUCATION—Continued

Table 9
Effect of SB 813 Minimum Teachers' Salary Provisions on a Hypothetical School District Salary Schedule
I. Before Minimum Teachers' Salary Adjustment

	Years of Experience			
Academic Training	*Zero*	*One*	*Two*	*Three*
B.A.	$13,000	$14,000	$15,000	$16,000
B.A. plus 15 units	14,000	15,000	16,000	17,000
B.A. plus 30 units	15,000	16,000	17,000	18,000
B.A. plus 45 units	16,000	17,000	18,000	19,000

II. After Minimum Teachers' Salary Adjustment

	Years of Experience			
Academic Training	*Zero*	*One*	*Two*	*Three*
B.A.	$14,300	$14,300	$15,000	$16,000
B.A. plus 15 units	14,300	15,000	16,000	17,000
B.A. plus 30 units	15,000	16,000	17,000	18,000
B.A. plus 45 units	16,000	17,000	18,000	19,000

As shown in Table 9, the lowest salary paid a beginning teacher under the hypothetical district's salary schedule, *before* the increase in minimum teachers' salaries, is $13,000. This salary is paid to teachers with a bachelor's degree and no teaching experience. Under the terms of SB 813, the district is permitted to increase by 10 percent the salaries paid all teachers at this point on the salary schedule—to $14,300. For each teacher's salary so increased, the district would receive from the state $1,404 ($1,300 plus $104 for the district's increased STRS contribution).

In addition, the district may also increase to $14,300 the salaries of any teachers whose salaries otherwise would be below the new minimum level. Thus, in the example shown in the table, the district may increase the salaries of those teachers who were paid $14,000 under the old schedule. For each of these teachers whose salary was increased, the district would receive from the state $324.

The new salary schedule which results from this hypothetical district increasing its minimum teachers' salaries is shown in the lower half of Table 9. Under this schedule, all of the salaries within the upper left-hand corner receive the same salary. Thus, a teacher with a bachelor's degree and no experience would receive the same salary as a teacher with a bachelor's degree and a year's teaching experience.

Implementation Status. Senate Bill 813 appropriated approximately $12.3 million in 1983–84 and $24.7 million in 1984–85 to increase minimum teachers' salaries. The Governor vetoed the 1984–85 funds contained in the bill, but requests $24.8 million in his budget for this purpose.

During our field visits, school district administrators expressed confusion regarding the implementation of the minimum teachers' salary provisions. While many issues have since been clarified by SDE, there remain contradictory interpretations of how the program will operate in 1984–85. SDE has advised school districts that, if they accept reimbursement for the costs of increasing minimum teachers' salaries in 1983–84, *they are not obligated to adjust the salaries shown on their salary schedules to reflect the actual amounts* (including the state-funded adjustment) *paid teachers*

—despite the fact that the state funds are permanently built into the per-pupil revenue limits. As a result, some school district administrators believe that, in 1984–85, they may continue to receive the permanent revenue limit adjustment amount *plus* reimbursement for increasing the lowest *scheduled* (as opposed to the lowest paid) salary by 10 percent, even though they actually will be paying a minimum salary that is no greater than what was paid in 1983–84. We address this issue later in this *Analysis*.

In addition, we found that many school district administrators were hesitant to participate in the minimum teachers' salary program because of the problem of "compaction" that results from raising only the minimum salaries. This problem would, of course, place a great deal of pressure on school district governing boards to reestablish salary gradations, based on experience and level of educational attainment, among those teachers whose salaries are set at the new minimum ($14,300 in the hypothetical example discussed above). This, in turn, would create pressures to increase salaries at *all* other levels on the schedule. Yet, SB 813 provides that, as a condition of receiving reimbursements under the program, districts must certify that the increase in minimum teachers' salaries does not require the district to increase the salaries of other teachers.

b. ***Teacher Trainees.*** Senate Bill 813 establishes a "teacher trainee" certificate which authorizes the holder to teach in grades 7–12 under the guidance of a mentor teacher. The requirements which a person must satisfy in order to obtain such a certificate include a baccalaureate degree and passage of the state basic educational skills proficiency test (CBEST) and the appropriate subject matter examination. Teacher trainees may be employed only if the district certifies that there is not a sufficient number of credentialed teachers available to meet its needs. Trainees are authorized to teach in their undergraduate major or minor subjects. They will be eligible for a preliminary teaching credential after two years of service as a trainee, upon recommendation of the school district governing board.

Implementation Status. The Commission on Teacher Credentialing (CTC) indicates that regulations governing the trainee program will be developed by March 1984. Because trainees will serve under the guidance of a mentor teacher, implementation of the trainee program is predicated upon implementation of the teacher mentor program (discussed later in this overview).

The teacher trainee program was established primarily to upgrade the quality of instruction in areas where there are teacher shortages. Such shortages are indicated by the fact that in 1982–83, the CTC issued 5,768 emergency credentials (excluding short-term substitute teachers). Emergency credential holders do not have to pass a subject matter examination and, based upon a finding of need by the district governing board, do not have to possess a baccalaureate degree.

The trainee program may also serve to challenge the validity of the current requirements for certifying teachers. If it can be shown that teacher trainees perform as effectively as regular teachers, the pedagogical requirements for credential certification should be reassessed. Senate Bill 813 requires the CTC to submit a report on the effectiveness of the teacher trainee program by January 1, 1987.

c. ***Teacher Shortage Student Loan Assumption Program.*** In order to increase the ability of public schools to attract and retain teachers in mathematics, science, and other fields where critical shortages (as defined by the Superintendent of Public Instruction) exists, SB 813 establishes the

DEPARTMENT OF EDUCATION—Continued

California Teacher Shortage Loan Assumption program. In order to be eligible to participate in the program, an applicant must have a baccalaureate degree which qualifies him or her to teach in one of the shortage areas, and must have received a loan under the Federal Guaranteed Student Loan (FGSL) program, National Direct Student Loan (NDSL) program, or another program approved by the Student Aid Commission.

The loan assumption program provides that if an eligible participant teaches for three years in a school district with a shortage of teachers in one or more of the designated subject areas, the state will repay up to $8,000 of the participant's outstanding student loans. Specifically, SB 813 provides that the Student Aid Commission (SAC) shall assume up to $2,000 of the student loan after the participant completes one school year of teaching service and an additional $3,000 per year upon completion of the remaining two years of service. Should the participant fail to complete three years of teaching service, however, he would assume full liability for his student loans—including any portion which has already been assumed by the state.

Senate Bill 813 provides that, by the 1985–86 school year, the SAC shall assume up to 500 student loans. The act further declares legislative intent that, commencing in 1984–85, funding necessary for the administration of the loan assumption program shall be included in the commission's budget in an "amount necessary to meet the student loan obligations incurred by the commission."

Implementation Status. Senate Bill 813 appropriated $100,000 annually in 1983–84 and 1984–85 to the Student Aid Commission to administer the California Teacher Shortage Loan Assumption program. The Governor's Budget reflects the $100,000 statutory appropriation in the commission's budget for 1984–85, but provides no additional funding for program administration or for the costs of assuming student loan obligations.

At the time this *Analysis* was written, the Student Aid Commission was drafting guidelines for the implementation of the California Teacher Shortage Student Loan Assumption program, based on the assumption that selected participants would begin their first year of teaching service in September 1984. Because the act provides that SAC shall begin to assume loan obligations only upon the completion of this first year's service, it is unlikely that the commission will incur any costs due to loan assumptions prior to 1985–86. The amount necessary to repay student loans in that and succeeding fiscal years will depend on the number of students who successfully complete their service obligations and the value of the loans assumed.

2. Improving the Quality of the Teaching Profession

a. ***Mentor Teacher Program.*** To encourage retention of exemplary teachers and the upgrading of skills possessed by new and experienced teachers, SB 813 (as amended by AB 70) provides funds to school districts and county offices of education to implement the California Mentor Teacher Program. Under this program, districts and county offices may designate as "mentor teachers" a number of eligible teachers equal to 5 percent of the total number of certificated classroom teachers. In order to be eligible to participate in this program, a teacher must:

- be a credentialed classroom teacher with permanent status,
- have substantial recent classroom instruction experience, and

- have demonstrated exemplary teaching ability, such as effective communication skills, subject matter knowledge, and mastery of a range of teaching strategies necessary to meet the needs of different pupils.

In return for performing additional duties specified in the act, the mentor teacher will receive a stipend of up to $4,000 annually.

Senate Bill 813 provides that districts and county offices shall be reimbursed for (1) the cost of providing stipends to their mentor teachers and (2) the necessary costs of operating the program, such as the cost of substitute teachers and administrative costs. The act further provides that, in 1983–84 only, the total amount of reimbursements provided for districts' operating costs may not exceed one-third of the total amount appropriated for the program. In the event that the appropriated amount is insufficient to reimburse all participating districts and county offices, SB 813 requires the number of mentors for each district to be reduced proportionately, so that each mentor may still receive a full stipend. (This amount of the stipend may, however, be prorated, to reflect less than a full academic year's service by a mentor teacher.)

The act specifies that, while the primary duty of a mentor teacher is to provide assistance and guidance to new teachers, mentors may also give assistance and guidance to more experienced teachers. In addition, the measure provides that mentor teachers may provide staff development for teachers and develop special curricula. The act requires that, on the average, the mentor spend at least 60 percent of his or her time in the direct instruction of pupils. The act also prohibits mentor teachers from participating in the evaluation of other teachers.

The mentor teachers are to be selected by a committee, a majority which is composed of certificated classroom teachers. The remainder of the committee is to be composed of school administrators but may also include parents, pupils, or other public representatives, at the discretion of the district governing board. Teachers selected by the committee may serve as mentors for up to three years and may then be reappointed by the committee.

Implementation Status. Senate Bill 813 appropriated $10.8 million in 1983–84 (half-year cost) and $30.8 million in 1984–85 for implementation of the California Mentor Teacher Program. While the Governor vetoed the SB 813 funding for 1984–85, his budget proposes $30.8 million for this program. (This amount is composed of $10.8 million to continue the level of funding established in 1983–84 plus $20 million for expansion of the program in the budget year.)

Pursuant to SB 813, the Superintendent of Public Instruction has recommended to the State Board of Education rules and regulations to implement this program. The board, however, was not required to adopt such rules and regulations until January 1, 1984. At the time this *Analysis* was written, the mentor teacher program had not yet been implemented.

Senate Bill 813 also required the Superintendent of Public Instruction to submit a report to the Legislature by November 15, 1983, which includes a plan for programmatic review of applications and a summary of implementation of the mentor teacher program. At the time this *Analysis* was written, our office had not received this report.

In our field visits, a recurrent issue of concern to school district administrators involved the determination of which aspects of the mentor teacher program are subject to collective bargaining. On this issue, SB 813 provides only that "the subject of participation by a school district or an individual certificated classroom teacher in a mentor teacher program

DEPARTMENT OF EDUCATION—Continued

shall not be included within the scope" of collective bargaining. Accordingly, school district administrators have sought guidance from the Department of Education as to the extent of this exclusion. For example, does the exclusion extend only to the issue of whether or not a district chooses to participate in the program, or does "the subject of participation" also refer to the *manner* in which a district chooses to participate? The department, however, has taken the position that to provide guidelines on this issue would be inappropriate.

b. ***Teacher Credentialing Changes.*** Senate Bill 813 makes significant changes in the laws governing teacher credentialing. Specifically, the bill:

- establishes, for the first time, continuing education requirements for teacher credentials issued after September 1, 1985, and
- directs the Commission on Teacher Credentialing (CTC) to establish procedures requiring college instructors to do field work in public school classrooms.

Prior to the enactment of SB 813, teachers holding the "clear" credential could obtain a "life" credential after two years of teaching. During legislative deliberations on SB 813, the Governor advocated elimination of the life credential and the imposition of continuing education requirements as a condition for credential renewal. As enacted, SB 813 specifies that individuals applying for initial clear credentials on or after September 1, 1985, will not be eligible to receive a life credential. Instead, the act requires that such persons will have to teach for at least one-half year and complete at least 150 hours of "professional growth" activities every five years in order to renew their clear credentials.

Under SB 813, credential holders will design their own programs of professional growth, consistent with regulations to be developed by the Commission on Teacher Credentialing. SB 813 requires the commission to include in its list of acceptable activities:

- college and university courses,
- participation in professional conferences, workshops, teacher center programs, or staff development programs,
- service as a mentor teacher,
- participation in systematic programs of observation and analysis of teaching,
- service in a leadership role in a professional organization, and
- participation in educational research or innovation efforts.

Senate Bill 813 also directs the CTC to develop procedures requiring college faculty, who teach courses related to teaching methods, to participate in public elementary or secondary school classrooms at least once every three years.

Implementation Status. The CTC indicates that regulations governing faculty field work will be developed by March, 1984. No timeline has been established for the development of regulations on individual programs of professional growth.

Our analysis has identified the following policy issues concerning the individual programs of professional growth, which the Legislature may wish to address:

- ***Should there be a requirement that professional growth activities be related directly to the teacher's job?*** Course work submitted by teachers for salary schedule advancement sometimes is not related, or is related indirectly, to their jobs (courses in administration, for example).

- ***Should service as a mentor teacher be included in the list of acceptable activities?*** If so, this implies that once teachers reach a certain level of proficiency, continuing education will not improve their teaching skills.
- ***Should service as a leader in a professional organization be included in the list of acceptable activities?*** It is not clear how such experience would result in improved teaching skills.

The provision requiring field work by college instructors of teaching methodology might require an increase in funding for the California State University and the University of California to cover the added workload this requirement will create. Consequently, this provision of SB 813 may have an indirect fiscal impact on the state. The extent of these costs, and the degree to which they can be absorbed within the university budgets, will depend on regulations to be developed by the CTC and subsequent legislative action in the annual Budget Act.

c. ***Teacher Competency Evaluations.*** Prior to the enactment of SB 813, school district governing boards were required to use the following three criteria in evaluating and assessing the competency of teachers:

- the progress of students toward district-established standards of expected student achievement,
- the performance of such noninstructional duties and responsibilities as may be prescribed by the boards, and
- the establishment and maintenance of a "suitable learning environment."

Senate Bill 813 changes these criteria to place a greater emphasis on teachers' performance of instructional duties. Specifically, the act repeals the requirement that teachers be evaluated with respect to the performance of noninstructional duties and provides instead that they shall be evaluated with respect to their "instructional techniques and strategies" and their "adherence to curricular objectives." This measure also changes, from 60 to 30 days prior to the end of the school year, the deadline for giving written evaluations to employees.

The act further provides that, if a permanent certificated employee receives an unsatisfactory evaluation, the employee must be evaluated annually until he or she receives a satisfactory evaluation or is separated from the district. In the event the unsatisfactory rating is in the area of teaching methods or instruction, district governing boards may require an employee to participate in programs to improve in these areas. Prior to SB 813, district governing boards were required to evaluate permanent certificated employees at least once every other year.

Senate Bill 813 also provides that, as a condition for receiving school apportionments, district governing boards must adopt rules and regulations by December 1, 1984, to:

- ensure that personnel who evaluate teachers have demonstrated competence in instructional methodologies and teacher evaluation,
- recognize each probationary employee's need for training, assistance, and evaluation, and
- provide a procedure for pupils' parents and guardians to file complaints regarding district employees.

These regulations are to be reviewed by school districts on an annual basis.

Implementation Status. At the time this *Analysis* was written, school district governing boards had revised—or were in the process of revising—their criteria for teacher evaluations to comply with the new

DEPARTMENT OF EDUCATION—Continued

standards imposed by SB 813. In addition, the Department of Education had indicated that it may issue an advisory letter in April or May of 1984, suggesting how boards may develop the rules and regulations required to be adopted by December 1984. The department had not, however, developed plans to monitor compliance in this area.

d. ***Layoff/Dismissal of Teachers.*** Senate Bill 813 makes several changes in the procedures governing the layoff and dismissal of teachers. The purpose of these changes is to provide districts with greater flexibility: (1) to reduce staff in the event that the amount of funding provided in the Budget Act is not sufficient to provide an increase in total revenues of 2 percent per ADA, (2) to change the composition of the teaching force in response to state-mandated modifications in curriculum, and (3) to dismiss incompetent or unsatisfactory teachers more easily.

Specifically, the act provides that any district receiving an increase in total revenues per ADA of *less than 2 percent* in any fiscal year may lay off certificated personnel (including teachers) for lack of funds. Under these circumstances, eligible districts may impose such layoffs at any time from five days following enactment of the Budget Act through August 15. Our analysis indicates that only a handful of small districts will be affected by this provision in 1983–84.

SB 813 also allows school districts to lay off teachers "whenever the amendment of state law requires the modification of curriculum." In addition, SB 813 allows a school district to deviate from seniority order in terminating or rehiring employees, if the district (1) demonstrates a specific need to do so or (2) in order to comply with constitutional requirements related to equal protection of the law.

Finally, SB 813 makes it easier for districts to dismiss unsatisfactory teachers. Specifically, it:

- Permits school district governing boards to dismiss probationary teachers hired in 1983–84 or thereafter for unsatisfactory performance, according to criteria developed by the boards or for "cause."
- Reduces the required notification period for dismissal of teachers charged with unprofessional conduct, from 90 to 45 days.
- Provides that nonsubstantive procedural errors committed by a district in the dismissal of a teacher shall not be grounds for dismissing the charges against the teacher, unless the errors are prejudicial.

Implementation Status. At the time this *Analysis* was written, most school districts had not yet had an opportunity to take advantage of the new laws governing the layoff and dismissal of teachers. As a result, it is too early to determine the effect of these changes.

Because of the additional funding provided to schools through the Budget Act, SB 813, and AB 70, only a few small school districts received an increase in total revenues of less than 2 percent per ADA in 1983–84. Consequently, few school districts were eligible to impose layoffs under the new "lack of funds" provisions.

On the other hand, the provisions granting school districts greater flexibility in changing the composition of the teaching force should permit districts to implement in a cost-effective manner the new high school graduation requirements mandated by SB 813. This, in turn, will reduce the amount of costs for which districts may claim reimbursement from the state, pursuant to Article XIII B of the California Constitution.

e. ***Substitute Teachers.*** Under the laws in effect prior to the enactment of SB 813, school districts hiring substitute teachers were required to give first priority to any teachers formerly employed by the district who had been laid off. Because a teacher employed as a substitute generally earns less than what he or she would earn as a regular teacher, some school districts might find it fiscally advantageous to re-hire laid off teachers as substitutes on a long-term basis, rather than reappoint them to regular teaching positions.

Senate Bill 813 seeks to curtail this practice, by requiring that a laid off employee who serves as a substitute teacher for at least 21 days within any 60-day period be paid no less than the amount he or she would earn as a regular teacher. The act further provides that the higher rate of pay shall be applied retroactively to the first 20 days of service.

Implementation Status. At the time this *Analysis* was written, school district governing boards had revised—or were in the process of revising—their policies regarding payments to long-term substitute teachers, in order to comply with the requirements of SB 813.

We have no information on the extent to which school districts may have engaged in the practice of rehiring laid off teachers as long-term substitutes. Consequently, we are unable to determine what effect this provision of SB 813 is likely to have in curtailing this practice.

C. STRENGTHENING THE ADMINISTRATION OF SCHOOLS

While most of the reform emphasis in SB 813 was on improving classroom instruction and the teaching profession, some of the programs established or modified by the act are directed at improving school administration. These programs are discussed in this section.

1. Administrator Training/Pilot Project for Administrative Personnel

Senate Bill 813 makes minor modifications to two programs authorized by Ch 1388/82:

- The Administrator Training and Evaluation program, formerly called the California Leadership Institute, which allows a school district, county superintendent of schools, or a consortium of those agencies to apply for funds in order to establish a three-year project for administrator training. The purpose of this program is to improve the clinical supervision skills of administrators.
- A pilot project for administrative personnel recruitment and selection, to be operated by county superintendents of schools or consortia of school districts, selected by the State Board of Education. The purpose of this program is to assist school districts in selecting administrative personnel.

Because the Legislature did not provide any funding for these programs in 1982–83 or 1983–84, they have not been implemented to date.

Implementation Status. Senate Bill 813 contained an appropriation of approximately $500,000 to support the Administrator Training and Evaluation program in 1984–85, but these funds were vetoed by the Governor. The Governor's Budget, however, proposes $2.0 million for the program in 1984–85. Senate Bill 813 provided no appropriation for the pilot project, but declared legislative intent that it be funded in the Budget Act. The Governor's Budget proposes $250,000 for this program in 1984–85. The State Department of Education has not issued regulations governing the programs, and no timelines have been set for the development of such regulations.

DEPARTMENT OF EDUCATION—Continued

2. Innovative Local Experiments to Strengthen Personnel and Management

Senate Bill 813 requires the Superintendent of Public Instruction to select up to five pilot projects designed to: improve the efficiency of school district operations, devise incentives for personnel to serve in high-demand areas, improve on-the-job training of new personnel, and improve personnel evaluations. The act terminates authorization for these pilot projects on July 1, 1985.

Implementation Status. Senate Bill 813 contains no appropriation for this program, but declares that the state should fund the marginal costs of the pilot projects. Presumably, the Legislature's intent is that the projects be funded in the Budget Act or separate legislation. The 1984–85 budget proposes $250,000 for the program.

The State Department of Education has not issued regulations governing the implementation of this program, and no timelines have been established for the development of such regulations.

D. GENERAL FINANCE PROVISIONS OF SB 813

Although it maintained the basic revenue limit mechanism for providing financing K–12 schools, SB 813 made numerous changes to revenue limit calculations. The discussion which follows details these and other related changes to those formulas which generate most of the general purpose revenue going to school districts.

1. Revenue Limit Changes

The majority of state support for K–12 public schools is allocated to school districts through the revenue limit funding system. This system, developed in part to comply with the State Supreme Court's *Serrano* decision, has undergone many changes since revenue limits were first established in 1973–74. Senate Bill 813 marks another stage in the evolution of California's school finance system.

The act makes numerous technical and substantive changes in the laws governing the calculation of K–12 revenue limits. The measure provides significant adjustments to each district's base revenue limit, restructures funding adjustments for ADA growth and decline, and specifies a government cost index to determine annual cost-of-living adjustments for K–12 support. Below, we discuss some of the major provisions of SB 813 affecting revenue limits and their implications for the future.

a. Cost-of-Living Adjustment (COLA)

The 1983 Budget Act provided sufficient funds to grant a 6 percent COLA to school district and county office of education revenue limits, and a 3 percent COLA to selected categorical programs, in 1983–84. Senate Bill 813 provided additional funds which resulted in an overall COLA of: (1) 8 percent for school district and county office of education revenue limits and special education programs and (2) 6 percent for the remaining programs. The measure also establishes a statutory COLA for these revenue limits in 1984–85 and each year thereafter, equal to the change in the Implicit Price Deflator for Government Goods and Services during the preceding fiscal year. Based on the projected change in this index, we estimate the statutory COLA required by SB 813 for 1984–85 is 5.5 percent.

The Governor's Budget proposes a 3 percent COLA for revenue limits, in lieu of this statutory adjustment. This results in an underfunding of revenue limits relative to the requirements of current law amounting to approximately $200 million. We address this issue later in this *Analysis.*

By linking the revenue limit COLA to a government cost index, SB 813 departs significantly from previous school finance law. Prior law specified the percentage amount by which the per-pupil revenue limit would be increased in each year. In some years, the specified percentage fell short of the percent increase in the prices school districts had to pay. In other cases, the specified percentage exceeded the rate of inflation.

Linking the revenue limit COLA to the Implicit Price Deflator for Government Goods and Services, rather than to an arbitrary percentage, should, to the extent that this index is a reasonable measure of school district costs, eliminate the erosion of district purchasing power by inflation.

b. Serrano Equalization Features

Senate Bill 813 also significantly altered the funding provisions designed to meet the court's ruling in the *Serrano v. Priest* case. In 1977, the Legislature enacted AB 65 (Chapter 894) as a means of ensuring that educational expenditures per pupil did not vary significantly from district to district due to differences in district wealth. This measure established a school finance funding mechanism which provided school districts different COLAs depending upon their per-pupil revenue limits. In general, a district with a revenue limit above the statewide average would receive a smaller COLA than would a district with a revenue limit below the statewide average. Under this system, per-pupil funding levels would be drawn to the statewide average ("squeezed") over time because of the differential COLA adjustments. Thus, funding disparities stemming from differences in district wealth gradually would be reduced.

Senate Bill 813 eliminates the equalization mechanism established in AB 65, by repealing the "squeeze" formulas which determined each district's revenue limit COLA. In their place, SB 813 provides that revenue limits below the statewide average in 1983–84, as computed after all adjustments have been made, are to be raised to within $50 of the computational average. In 1984–85, below-average revenue limits are to be raised to the computational average. The *actual* statewide average revenue limit, of course, increases when the equalization adjustment is provided; consequently, it is, as a practical matter, impossible to bring revenue limits below the actual statewide average revenue limit to the average without requiring a corresponding reduction in the revenue limits which fall *above* the statewide average. Senate Bill 813 provides $23.5 million to implement this provision in 1983–84, and the budget proposes $145 million for additional equalization in 1984–85.

Unlike the equalization mechanism of AB 65, this system does not provide smaller COLAs to districts with revenue limits above the statewide average. Under SB 813, all districts of the same type (elementary, high school, and unified) receive the same fixed dollar amount as a COLA. This amount is computed by multiplying the average revenue limit for each type of district by the percentage COLA granted. In 1983–84, for example, all elementary school districts receive a COLA of $137 per ADA, high school districts receive $168 per ADA, and unified districts receive $149 per ADA.

SB 813 also limits the amount of state aid provided to districts which have a per-pupil revenue limit greater than 105 percent of the statewide average revenue limit and which are experiencing enrollment growth.

DEPARTMENT OF EDUCATION—Continued

Specifically, if a district experiences ADA growth beyond the 1982–83 level, the additional ADA are funded at either (1) the district-specific revenue limit or (2) 105 percent of the statewide average revenue limit, whichever is lower. This provision supports state efforts to comply with the *Serrano* decision, to the extent that state aid is provided for enrollment growth.

c. Adjustments to Base Revenue Limits

In addition to altering the provisions of law governing cost-of-living adjustments to revenue limits, SB 813 made several changes to the "base revenue limit" per pupil. The base revenue limit is the amount provided to support the general education program, and excludes categorical funds provided for special circumstances.

Some adjustments previously provided outside of the base revenue limit are "folded into" the base under SB 813. Also, funding adjustments for new programs established by SB 813 are folded into the base revenue limit. As a result, the distinction between funds provided for a special purpose (for example, increasing teachers' salaries) or for a special circumstance (for example, declining enrollment) and funds provided to support the general operation of the school district has been eliminated. Eventually, it will not be possible to determine whether or not the adjustments incorporated in the base revenue limit are sufficient to achieve the purpose for which they originally were provided.

Senate Bill 813 makes the following changes in the base revenue limit:

- ***$50 Million "One-Time" Funding.*** The trailer bill to the 1982 Budget Act, SB 1326 (Ch 327/82), provided $50 million to increase district and county office revenue limits for the 1982–83 fiscal year only. These funds provided an increase to revenue limits of $11.90 per ADA, statewide. Senate Bill 813 permanently builds the funding provided by Ch 327/82 into *school district* revenue limits. The measure does not, however, provide for a similar adjustment to revenue limits of county offices of education. Assembly Bill 70 (Ch 1302/83), the clean-up bill to SB 813, addressed this disparity by authorizing counties to make a similar revenue limit adjustment and appropriated $720,000 to fund these adjustments. The Governor, however, vetoed these funds from the bill. Consequently, the amount available from SB 813 for district revenue limits will be prorated among *both* districts and county offices of education.
- ***Minimum Revenue Guarantee.*** The 1983 Budget Act provided that in 1983–84, no school district would receive less than 100 percent of the revenues it received in 1982–83, regardless of the change in its ADA. This 100 percent revenue guarantee was provided *in lieu* of a 102 percent guarantee which had been provided in AB 777 (Ch 100/81) as an add-on to eligible districts' base revenue limits.

Senate Bill 813 eliminates the minimum revenue guarantee as an add-on to revenue limits in 1983–84 and thereafter. Under the act, districts that received funding for the guarantee in 1982–83 will continue to receive the additional funds in the form of a permanent adjustment to their per-pupil revenue limits.

This new provision has two consequences for school districts. First, if a district experiences an enrollment decrease in 1983–84 or some future year, the amount built into the revenue limit will not provide enough to guarantee a funding level equal to that received in the prior year. Second, if a district's ADA increases, it will continue to receive funds from the old minimum revenue guarantee, *even though the circumstance which prompted the support—a significant ADA decline—no longer exists.*

- ***Serrano Equalization Aid.*** As discussed earlier, SB 813 eliminates the "squeeze" formulas which previously determined the cost-of-living adjustment for each district's revenue limit. The measure instead provides that (1) similar types of school districts (elementary, high school, unified) will receive the same COLA, irrespective of their per-pupil revenue limits and (2) school districts with revenue limits below the statewide average will receive equalization aid sufficient to bring them to the statewide average by 1984–85. The equalization adjustment received in the prior year, like the COLA amount, is automatically built into the district's base revenue limit.
- ***Minimum Teachers' Salaries.*** As we discuss in greater detail elsewhere in this *Analysis,* SB 813 provided $12.3 million in 1983–84 to increase the salaries of entry-level teachers. The act provides that, beginning in 1983–84, school districts will be reimbursed for the costs of increasing their minimum teachers' salaries by 10 percent per year over a three-year period, up to a maximum of $18,000 (adjusted for inflation). Although SB 813 authorized only school districts to participate in the program, AB 70 expanded the program to include county offices of education.

Under the terms of SB 813 and AB 70, districts and county offices of education will receive support for this program in 1983–84 as an add-on to their base revenue limits. The amount of the add-on, however, will be folded into each district's base in 1984–85 and similar funding adjustments will be made in 1985–86 and 1986–87. By 1986–87, the full cost of raising a district's entry level salaries will be incorporated into its base revenue limit, and no further funding adjustments will be made.

As with other adjustments to the base revenue limit, the amount provided pursuant to the minimum teachers' salaries provision of SB 813 may not correspond to the *actual* increase in cost to the district. For example, a district receiving funding through its revenue limit to increase the salaries of 10 entry-level teaching positions in 1983–84 would continue to receive this support in future years, even if one or more of these positions subsequently were eliminated. In other words, the law provides for no reduction in a district's revenue limit in the event that the extent of its participation in the program falls below the original level.

- ***Maximum Revenue Limit Increase.*** In order to limit the potential increase in funding available to any particular district, SB 813 provides that a district's total revenues in 1983–84, expressed on a per-pupil basis, shall not exceed 115 percent of its per-pupil revenues in 1982–83. For 1984–85 and thereafter, the increase in per-pupil support is limited to twice the increase in the Implicit Price Deflator for Government Goods and Services during the preceding fiscal year. Thus if the deflator increases by 5.5 percent, districts could receive no more than an 11 percent increase in their per-pupil support.

School district administrators have indicated that this provision may affect their decisions to participate in some of the new programs established by SB 813. This is because the limit on the overall funding increase may prevent a district from receiving all of the funds to which it otherwise would be entitled. In this situation, the additional funds to be gained may not cover the increased costs associated with participating in the new programs established by SB 813.

DEPARTMENT OF EDUCATION—Continued

d. Declining Enrollment Adjustment

Senate Bill 813 repeals the "declining enrollment adjustment" which provided districts with funds in excess of the amounts that they would have received if funded strictly on the basis of their ADA. Prior to SB 813, districts received 75 percent of the revenue limit for pupils no longer in attendance in the first year of the enrollment decline and 50 percent of the revenue limit for the second year of the enrollment decline. Districts received funding for students no longer in attendance in recognition of the fact that district costs do not fall in direct proportion to the loss of ADA.

Under SB 813, districts are given the option of receiving apportionments based on either their current-year or prior-year ADA, whichever is greater. In addition, for 1983–84 only, districts are allowed to add 25 percent of the ADA loss which occurred between 1981–82 and 1982–83, *less* any increase in ADA between 1982–83 and 1983–84. Thus, in 1983–84 and beyond, all declining enrollment districts would find it fiscally advantageous to use their prior-year ADA for funding purposes, while growing districts would find it advantageous to use their current-year ADA.

e. Other Changes to Revenue Limits

Two revenue limit changes made by SB 813 are related to retirement and apprenticeship programs.

- *Public Employees Retirement System (PERS) Deduction.* The 1982 Budget Act reduced apportionments to districts and county offices of education in order to capture the savings that resulted from a decrease in the employer contribution rate to the PERS Fund. Senate Bill 813 continues the offset in 1983–84. The act *repeals* the offset for districts in 1984–85, but continues to require the offset for county offices of education.
- *Apprenticeship Programs.* Prior to SB 813, school districts and community college districts received $3.25 for each "clock hour" (60 minutes) of related and supplemental instruction offered to each indentured apprentice. Senate Bill 813 redefines the clock hour, for purposes of calculating reimbursement entitlements, as 50 minutes. The act provides no additional funding in recognition of the change in the clock hour. It does, however, authorize the Superintendent of Public Instruction and the Chancellor of the California Community Colleges to transfer funds between Section A of the State School Fund (K–12 apportionments) and Section B (community college apportionments) in the event of a funding shortfall in one of the sections.

The change in the definition of "clock hour" raises two issues which the Legislature should be aware of:

1. If the total amount of instructional time offered to indentured apprentices in 1983–84 is the same as in 1982–83, an additional appropriation will be required to fully fund the program. We estimate the additional requirement to be $683,000 for K–12 districts.
2. If, on the other hand, school district administrators interpret the change in law as indicative of legislative intent that they reduce their instructional offerings, students will receive 17 percent less instruction than they received in 1982–83—at the same cost to the state. In either case, the ultimate effect of the change in law is the same—the state will provide a higher rate of reimbursement for each unit of instructional time offered to indentured apprentices.

We discuss this issue at greater length later in this *Analysis.*

2. Small School District Funding

Senate Bill 813 reestablishes the necessary small school funding formula to provide qualifying districts with additional state aid. This formula was deleted from state law in 1978–79. Specifically, the act authorizes districts operating a statutorily-defined "necessary small school" to receive school apportionments based on either their ADA count or the number of certificated staff employed.

The corresponding funding level is scheduled in law and is adjusted for inflation by an amount proportionate to the increase provided to unified district revenue limits. Qualifying districts, may, however, choose to receive their apportionments based on the system of revenue limits which applies to school districts generally.

Under SB 813, districts are not required to receive the approval of the SDE before they can qualify for funding through the necessary small school formula. Rather, the county superintendent of schools is responsible for determining a district's eligibility and computing its apportionment based upon the codified funding schedules. If a district cannot meet all of the criteria specified in the act, it may still be eligible for the special allocation, provided it secures a waiver from the Superintendent of Public Instruction.

Implementation Status. Senate Bill 813 provided $3 million to fund necessary small schools in 1983–84. At the time this analysis was prepared, however, we were unable to determine whether the appropriation will be sufficient to meet total claims in the current year. The Governor's Budget proposes $3.1 million for this program in 1984–85.

3. Special Education Adjustments

Senate Bill 813, in conjunction with the 1983 Budget Act, provided an 8 percent COLA for special education entitlements, including special transportation, in 1983–84. This is equal to the COLA provided for K–12 apportionments and is consistent with prior law which linked special education COLAs to the statewide average COLA provided to revenue limits of large unified school districts.

In addition, the act reduces school districts' entitlements to special education funds by increasing the offset for students in special day classes. Because these students spend most of the instructional day in the special education program, the revenue limit generated by them is counted as an offset to the special education entitlement. The act also redefined the revenue limit to include funds previously excluded, thus increasing the offset.

Finally, commencing in 1984–85, the act requires districts to establish a transportation fund and deposit into the fund all transportation allowances, including those for special education transportation. Other revenues may be deposited into the fund at the district's option, but all revenues must be expended on approved transportation costs only.

Implementation Status. Senate Bill 813 appropriated $94.4 million to provide sufficient funds to grant, in concert with the funds appropriated by the 1983 Budget Act, an 8 percent COLA to special education and a 6 percent COLA to "all other categorical programs." The State Department of Education allocated $49.1 million of this amount to special education, in order to increase the COLA to 8 percent from the 3 percent provided in the Budget Act.

Senate Bill 813 also appropriated $99.7 million in 1984–85 for "maintenance of cost-of-living adjustments granted for special education pro-

DEPARTMENT OF EDUCATION—Continued

grams and other categorical programs in prior fiscal years," but these funds were vetoed by the Governor. The Governor's Budget, however, proposes to maintain in the base the 8 percent COLA granted in 1983–84. In addition, the budget proposes $37.0 million to grant a 3 percent COLA to special education in 1984–85. This amount is $30.8 million less than the amount required to fund fully the statutory COLA for special education, which we estimate to be 5.5 percent in the budget year.

4. Adult Education Adjustments

Adult education programs, operated by K–12 school districts, are funded on a revenue limit basis, with revenue limits varying by district. These programs offer courses in parenting, basic education, English as a Second Language, citizenship, classes for handicapped persons, vocational education, home economics, health and safety, and classes for older adults. The statewide average revenue limit for these programs was $940 per ADA in 1982–83.

Prior to the enactment of SB 813, adult education programs were authorized an annual COLA of 6 percent. Districts having adult revenue limits above the statewide average, however, were not entitled to an inflation adjustment. Prior law also provided for no state-funded enrollment growth in 1982–83 or subsequent years.

Senate Bill 813 provides (1) for 1983–84, an inflation adjustment of $70 per prior-year adult ADA, regardless of the district's adult revenue limit, (2) for subsequent years, an inflation allowance equal to 6 percent of the prior year's statewide average adult revenue limit per ADA, with each district guaranteed a *minimum* revenue limit equal to 1.06 times the prior year *statewide* average, and (3) 2.5 percent annual growth in state-funded adult ADA, beginning in 1983–84. Total funding for adult education in 1983–84 is estimated to be $160 million.

Both the flat grant inflation provision and the minimum revenue limit provision of SB 813 will tend to equalize adult revenue limits among school districts. By bringing all districts up to the prior-year revenue limit average, SB 813 operates on the concept of equalization by "leveling up," with the greatest gain accruing to districts with low revenue limits.

Implementation Status. Senate Bill 813, in conjunction with the Budget Act of 1983, appropriated approximately $9 million for a 6 percent COLA for adult education programs in 1983–84. Because the authorized $70 per ADA inflation adjustment represents a 7.4 percent increase, the amount appropriated will not fully fund the authorized 1983–84 COLA. We estimate that the combined appropriations from SB 813 and the Budget Act will provide approximately $56 of the $70 per ADA COLA called for by SB 813.

Senate Bill 813 appropriated approximately $12 million for adult education inflation and growth in 1984–85. These funds were vetoed by the Governor. The bill did not contain an appropriation to fund the minimum revenue limit provision in 1984–85. The Department of Education estimates that $2.2 million will be required for this purpose, and $14.1 million will be needed for authorized inflation and growth. The budget proposes $171 million to fund adult education in 1984–85, including the authorized 2.5 percent growth in enrollment, the minimum revenue limit provision ("leveling up") and a 3.0 percent COLA.

The principal issue arising from the provisions of SB 813 dealing with adult education involves the method of achieving equalization. "Leveling up" is a relatively high-cost method which assumes that (1) those districts with high revenue limits have been funded at an appropriate level and (2) other districts have been underfunded. Because of the difficulty of measuring program benefits and a lack of data on the need for adult education among the districts, however, there is no analytical basis to determine the most cost-effective level of funding for adult education programs.

5. Regional Occupational Centers and Programs

Regional Occupational Centers and Programs (ROC/Ps) provide vocational training to high school pupils and adults. In 1982–83, ROC/Ps enrolled 61,891 high school ADA and 29,565 adult ADA (state-funded).

Senate Bill 813 requires ROC/Ps to give priority to youth 16–18 years old, and specifies that at least 70 percent of the funds appropriated for ROC/P enrollment growth in 1983–84 shall be allocated to high school ADA. To be eligible for these funds, ROC/Ps must increase the number or percentage of enrolled pupils aged 16–18 years, but this requirement may be waived by the Superintendent of Public Instruction. The legislation also requires school district governing boards to prepare an annual plan to increase the participation in ROC/Ps of 11th and 12th grade pupils, if these pupils can benefit from ROC/P courses.

These requirements, which emphasize the role of ROC/Ps in training high school pupils, are consistent with the recommendations contained in a report on vocational training submitted by the Assembly Office of Research in April, 1983. This report recommended that ROC/Ps be required to increase the access of high school youth to their programs, while placing less emphasis on training for adults.

Implementation Status. The Budget Act of 1983 and SB 813 appropriated $176 million for ROC/Ps in 1983–84, including $15.2 million for a 10 percent growth in enrollment. Because of the effects of a veto by the Governor (discussed in greater detail in our analysis of ROC/Ps), the amount available for ROC/P growth was reduced to $1.7 million. No funds for program growth are requested in the budget for 1984–85.

6. School Improvement Program Changes

Under the ongoing School Improvement Program (SIP), the state attempts to improve schools by providing an incentive for schools to focus on instructional planning and instructional quality. State funds are allocated for expenditure pursuant to the decisions of local school site councils. SIP schools receive *planning* grants in the initial year at the statutory rate of $30 per ADA. The statutory rates for *implementation* grants are $148 per ADA for grades K–3, $90 per ADA for grades 4–8, and $65 per ADA for grades 9–12.

Currently, SIP serves 53 percent of the schools in the state and 85 percent of the school districts. The student participation rates are 68 percent of statewide K–3 ADA, 22 percent of grades 4–6 ADA, and 21 percent of grades 7–12 ADA. In total, SIP serves 32 percent of K–12 ADA.

Because of the disparities in (1) the amount of funding provided per pupil and (2) the opportunity for individual schools to receive SIP funds, we concluded in the 1983–84 *Analysis of the Budget Bill* that "the current distribution of funds is not defensible from an analytical standpoint." The Legislature addressed this issue in SB 813.

Senate Bill 813, as amended by AB 70, declares the Legislature's intent that School Improvement Program funding be expanded and equalized to the extent that *all* districts eventually receive $106 per pupil in grades K–6,

DEPARTMENT OF EDUCATION—Continued

adjusted in 1985–86 and annually thereafter for inflation. To achieve this, the act provides that beginning in 1984–85, COLA and expansion funds appropriated for SIP shall be allocated only to school districts that receive less than the $106 benchmark (as adjusted) times 80 percent of the district's K–6 enrollment.

Senate Bill 813 also permits district governing boards receiving SIP funds for specified K–6 schools to allocate those funds to any K–6 school in the district. This provision may help to equalize SIP funding within districts.

Finally, in order to accelerate implementation of the program, SB 813 permits the Superintendent of Public Instruction to waive SIP planning requirements if the district certifies that the funds may be utilized effectively without preplanning. Under current law, SIP schools receive grants for a one-year period specifically for development of their school improvement plans.

Implementation Status. SB 813 appropriated approximately $10.3 million, in addition to funds appropriated for a COLA, to implement SIP equalization in 1984–85 pursuant to these provisions. The Governor vetoed this appropriation. The Governor's Budget, however, proposes $10.3 million for SIP equalization in 1984–85, for a total program level of $188 million.

7. Urban Impact Aid Changes

The Urban Impact Aid (UIA) program provides qualifying districts supplemental general aid to offset the higher costs believed to be associated with urbanization. Prior to the enactment of SB 813, 19 districts received funding through this program. Eligibility for UIA was limited to unified districts which met specified criteria based on size, ethnicity, poverty, and mobility.

Senate Bill 813 expands the number of districts that can qualify for UIA funding. Specifically, the act provides that high school districts and their feeder elementary districts meeting specified criteria may apply for UIA support in 1983–84. Assembly Bill 70, however, authorizes high school district participation only if the Superintendent of Public Instruction determines that funds have been specifically allocated for this purpose.

Implementation Status. Senate Bill 813, while expanding the number of districts that were authorized to participate in the UIA program in 1983–84, did not appropriate any additional funds specifically for the purpose of expanding participation. As a result, participation in the current year is limited to the traditional 19 unified districts. Senate Bill 813 contained a $9 million appropriation for UIA expansion in 1984–85; however, the Governor vetoed these funds from the bill. The budget proposes $72.5 million for UIA in 1984–85, which includes $9.2 million for the expansion of the program to high school and elementary districts.

8. Categorical Programs COLAs

Senate Bill 813 appropriated $94.4 million to provide, in combination with appropriations made by the 1983 Budget Act, sufficient funds to grant an 8 percent cost-of-living adjustment (COLA) to special education programs and a 6 percent COLA to "all other categorical program". Of this $94.4 million, the State Department of Education (SDE) allocated $49.1 million to special education and $45.3 million to the 20 categorical programs shown in Table 10.

Implementation Status. Table 10 shows, for each categorical program receiving the 6 percent COLA, the amount of COLA funds it received in the Budget Act and the amount of additional funds provided by SB 813 which were allocated to it by SDE.

Senate Bill 813 also appropriated $99.7 million in 1984–85 for "maintenance of cost-of-living adjustments granted for special education programs and other categorical programs in prior fiscal years," but these funds were vetoed by the Governor. The Governor's Budget, however, proposes to maintain in the base the 6 percent COLA granted in 1983–84. In addition, the budget proposes $36.7 million to grant a 3 percent COLA to each of the programs shown in Table 10.

Of the programs shown in the table, only three—Gifted and Talented Education, child nutrition, and meals for needy pupils—have statutory COLAs. The remaining programs receive COLAs at the discretion of the Legislature. We estimate that, in order to fund fully the three statutory COLAs, while continuing to provide a 3 percent COLA for the remaining programs, the Legislature would need to augment the amount proposed in the Governor's Budget by $1.4 million.

Table 10

Allocation of COLAs For "Other Categorical Programs" 1983–84 and 1984–85

	1983–84					*1984–85*	
	Budget Act COLA		*Additional Funds*	*Total COLA*		*Proposed COLA*	
Program	*Amount*	*Percent*	*SB 813*	*Amount*	*Percent*	*Amount*	*Percent*
Home-to-School Transportation	$4,482,000	3.0%	$4,483,080	$8,965,080	6.0%	$7,415,000 [a]	3.0%
Child Development	6,546,000	3.0	6,546,300	13,092,300	6.0	6,939,000	3.0
Economic Impact Aid	—	—	10,304,220	10,304,220	6.0	5,461,000	3.0
School Improvement Program	—	—	9,761,700	9,761,700	6.0	5,174,000	3.0
Regional Occupational Centers/Programs	4,645,000	3.0	4,536,260	9,181,260	6.0	4,949,000	3.0
Urban Impact Aid	—	—	4,026,180	4,026,180	6.0	2,133,000	3.0
Preschool	909,000	3.0	911,460	1,820,460	6.0	965,000	3.0
Child Nutrition	760,000	3.0	757,160	1,517,160	6.0	804,000	3.0
Meals for Needy Pupils	568,324	3.0	568,324	1,136,648	6.0	604,000	3.0
Small District Transportation	525,540	3.0	525,540	1,051,080	6.0	557,000	3.0
Gifted and Talented Education	—	—	1,010,280	1,010,280	6.0	535,000	3.0
Miller-Unruh Basic Reading	—	—	970,920	970,920	6.0	515,000	3.0
Staff Development	—	—	471,480	471,480	6.0	325,000	3.0
Apprentices	76,411	3.0	76,411	152,822	6.0	123,000	3.0
Demonstration Programs in Reading and Math	—	—	213,480	213,480	6.0	113,000	3.0
Adults in Correctional Facilities	36,000	3.0	35,940	71,940	6.0	38,000	3.0
Educational Technology	—	—	52,200	52,200	6.0	35,000	3.0
American Indian Education	24,000	3.2	21,000	45,000	6.0	24,000	3.0
Foster Youth Services	—	—	42,960	42,960	6.0	23,000	3.0
Native American Indian	—	—	19,080	19,080	6.0	10,000	3.0
Totals	$18,572,275	1.7%	$45,333,975	$63,906,250	6.0%	$36,742,000	3.0%

[a] Includes special education transportation

DEPARTMENT OF EDUCATION—Continued

9. New Summer School Program

Senate Bill 813 makes two significant changes to the laws governing the funding of summer school programs. Both of these changes take effect in 1984–85.

First, the act changes the method of determining school district reimbursements from one based on average daily attendance (ADA) to one based on student hours. For each school district, a reimbursement rate is calculated, based on the amount of summer school funding it actually received in 1983–84, divided by total student hours of attendance for the district in that year. In 1984–85, the district-specific funding rate is applied to all hours of summer school attendance *up to the 1983–84 level.* Additional hours, beyond the 1983–84 level, are funded at $1.50 per pupil-hour, regardless of the district's reimbursement rate.

Second, SB 813 allows districts to receive state support for summer instruction offered to students in math, science, and "other core academic areas designated by the Superintendent of Public Instruction." The law, however, limits the funded enrollment in these summer classes to 5 percent of the district's total enrollment.

Prior to the enactment of SB 813, school districts were authorized funding for summer school programs serving (1) graduating seniors and students in grades 7–12 who did not meet the districts' proficiency standards, (2) 11th grade students who, without the summer class, would not be able to graduate with their class, and (3) intersession students in year-round schools.

Implementation Status. SB 813 appropriated $41 million to expand the summer school program in 1984–85. These funds were vetoed by the Governor; however, the Governor's Budget proposes $41 million for this program in the budget year.

At the time this analysis was prepared, the superintendent had not designated the courses that will qualify as "other core academic areas" for purposes of funding the expanded summer school program.

The new summer school provisions raise two issues which the Legislature may wish to address.

- ***Timing.*** Many district administrators indicate a willingness to expand their summer school programs in 1984–85 to include science and math classes. They are reluctant, however, to enter into contracts with summer school teachers without some guarantee that state funds will be provided. Because the Budget Bill usually is signed around the first of July, these districts will most likely have little time to plan for an expanded summer program once the availability of funding is assured. If the Legislature wishes to provide districts sufficient opportunity to plan for the expansion, therefore, it may wish to consider appropriating funds for this purpose in separate, urgency legislation.
- ***The Limit.*** Our review also indicates that the limit on enrollment in the expanded summer programs does not provide a meaningful limit on the state's obligation to fund this program. The law provides that only 5 percent of a district's total enrollment may be enrolled in the new summer school classes. The law, however, places no limit on the number of *hours* of summer school attendance which may be claimed for each student enrolled. In order to establish a meaningful limit on summer school funding, therefore, the Legislature may wish to specify such a limit in terms of hours of attendance rather than in terms of enrollment.

We discuss these issues in greater detail later in this *Analysis.*

10. Incentives for Year-Round Schools

The Legislature established two different programs for year-round schools—one in SB 813 and one in SB 81 (Ch 684/83).

Senate Bill 813 establishes payments to school districts of $25 per pupil for schools which are operated on a year-round basis because of overcrowding. In order to be eligible for these payments, a school district must have an application on file with the State Allocation Board (SAB) and must be eligible to receive funding from the State School Building Lease-Purchase Fund for new school construction. The State Allocation Board is responsible for certifying the number of students enrolled in year-round schools because of overcrowding in each district.

Senate Bill 81 provides incentives for school districts to use alternatives to new construction (including year-round schools) to reduce or eliminate their need for new school facilities. Under the provisions of SB 81, a school district which has applied for, and is eligible to receive, a construction apportionment from the Lease-Purchase Fund may choose to reduce its facilities application by the number of units of estimated average daily attendance (ADA) to be accommodated by the alternatives to new construction. The district may then file an application with the State Allocation Board for yearly incentive payments, based on the number of ADA units reduced from its facilities application. These incentive payments equal one-half of the annual interest costs which otherwise would be incurred by the state to fund construction needed to accommodate this ADA.

Implementation Status. Senate Bill 813 appropriated $7.7 million for incentive payments for year-round schools in 1984–85, but the Governor vetoed this funding. The Budget Bill contains no funds for the year-round school incentive payments created by SB 813. It does, however, propose $7.7 million to fund the similar program created by SB 81.

There are a number of important differences between the provisions of SB 813 and those of SB 81:

- Senate Bill 81 provides incentive payments only for the number of units of estimated ADA served by the alternatives to new construction *and* reduced from the district's facilities application. While SB 813 provides incentive payments for *every* student attending a school that is operated year-round due to overcrowding, it does not require a district to reduce its request for school construction funds. For example, if a school with a capacity of 750 were able to serve 1,000 students through year-round operations, SB 813 would provide incentive payments for *each* of the 1,000 students enrolled. Senate Bill 81 would provide incentive payments for only the additional 250 students—and only if the district reduced its facilities application plan by 250 students.
- Senate Bill 81 provides incentive payments of approximately $236, $322, and $366 per unit of elementary, junior high, and high school ADA, respectively, served by an alternative method. These estimates are based on current construction and interest costs, and may increase in future years. Senate Bill 813, in contrast, provides $25 per pupil for each pupil attending schools operated on a year-round basis because of overcrowding.
- A school district which utilized alternatives to new construction in the 1982–83 fiscal year, but did not file a facilities application with the

DEPARTMENT OF EDUCATION—Continued

State Allocation Board on or before July 1, 1983, is not eligible to apply for incentive payments provided by SB 81. In contrast, SB 813 provides incentive payments to eligible school districts, regardless of when the district's application is filed with the SAB.

- Senate Bill 81 provides incentive payments for the use of options other than year-round schools which reduce the need for new school facilities, while SB 813 provides payments for overcrowding accommodated through year-round schools only.
- As enacted, SB 81 provides that incentive payments are to be funded from school district "excess" repayments to the State School Building Aid loan program, reducing the amount of such funds which would otherwise be available for deposit in the State School Deferred Maintenance and State School Building Lease-Purchase Funds. Incentive payments provided by SB 813, in contrast, are to be appropriated from the General Fund.

It is our understanding that the Governor intends (1) to propose legislation to repeal the year-round school incentive provisions of SB 813 and (2) to provide an annual General Fund appropriation for SB 81 incentive payments, so that those payments do not reduce the amount of funds available for deferred maintenance and school construction. This issue is discussed in greater detail later in our analysis of the Governor's request for school construction.

11. Teacher Education and Computer Centers

As part of the funding for the "Investment in People" initiative, the Budget Act of 1982 provided for the reorganization of 29 state-funded staff development centers into 15 regional Teacher Education and Computer (TEC) centers. The purpose of the centers is to provide staff development (inservice training) for teachers, with an emphasis on math, science, and computer education. Approximately $6.7 million was provided for this purpose in 1983–84.

Senate Bill 813 provides statutory authorization for the centers and their policy boards, and specifies the responsibilities of the centers, county boards of education, and the Superintendent of Public Instruction. The act also requires the Superintendent of Public Instruction to report annually on the effectiveness of the TEC centers.

Implementation Status. Senate Bill 813 contained an appropriation of $5.1 million for the TEC centers in 1984–85, but these funds were vetoed by the Governor. The Governor's Budget for 1984–85, however, proposes to increase funding for the TEC centers by $5.1 million and provides a 3 percent COLA on the 1983–84 base, for a total program level of $12.0 million. These funds will provide for a general expansion in the scope of services provided by the existing TEC centers.

12. Educational Technology Program.

The goal of the Educational Technology program is to strengthen the technological skills of California school pupils. This program was established by Ch 94/82 (AB 2190).

Senate Bill 813 made no substantive modifications to the Educational Technology program, but it provided an appropriation for the program, contingent upon the enactment of AB 803 of the 1983–84 session.

Assembly Bill 803, subsequently enacted as Ch 1133/83, revised and expanded the Educational Technology program. Under this program, grants are awarded by the State Board of Education to local education agencies for the purchase of technology equipment and to improve technology education. Chapter 1133 specifies eligible agencies and purposes for grants, and expands the administrative duties of the Superintendent of Public Instruction.

Implementation Status. The Budget Act of 1983 appropriated $870,000 for the Educational Technology program. Senate Bill 813 appropriated an additional $500,000, effective upon the enactment of AB 803. AB 803 provides that $300,000 of the SB 813 appropriation for educational technology shall be allocated for state administration of the program. The remainder will supplement the $870,000 appropriated in the Budget Act of 1983 for local assistance.

The Governor's Budget proposes $5.1 million to expand the Educational Technology program in 1984–85.

13. Expansion of Opportunity Classes

Senate Bill 813 provides financial incentives, beginning in 1984–85, for schools to increase the availability of "opportunity classes and programs" in grades 7 to 9. The purpose of these classes, authorized by existing law prior to SB 813, is to provide pupils who are identified as potential truants or disciplinary problems "an opportunity . . . to resolve their problems," so that they may return to regular classroom instruction.

Under the provisions of SB 813, school districts maintaining opportunity classes shall be eligible to receive reimbursements for costs associated with increasing the availability of such classes in grades 7 to 9 "which are in excess of the reimbursements provided in the regular apportionment." The amount of reimbursements received by any district, however, may not exceed $400 per pupil for each additional pupil enrolled in opportunity classes above the 1982–83 enrollment level in these grades.

In order to be eligible to receive reimbursements under this program, a school district must demonstrate the need for the funds and specify the purpose for which they will be used. In addition, the district must demonstrate that:

- instructional and counseling services provided by the expansion program will result in costs exceeding the amount of regular apportionments to the district, and
- the increased opportunity classes comply with the law and are designed to return pupils to the regular education program.

The State Department of Education is required to evaluate this program and report its findings to the Legislature on or before June 30, 1987.

Implementation Status. Senate Bill 813 appropriated approximately $4 million to implement the expansion of opportunity classes in 1984–85. This funding was vetoed by the Governor. The Governor's Budget, however, proposes $4 million to fund this program in the budget year.

At the time this *Analysis* was prepared, the Department of Education had not developed any guidelines or procedures to encourage the expansion of opportunity classes. Our review of the statutory criteria under which students may be placed in opportunity classes indicates a potential for abuse of the fiscal incentives provided by SB 813. Specifically, existing law provides that school districts may place in opportunity classes students who are—or "are in danger of becoming"—habitually truant; irregular in attendance; or insubordinate or disorderly. Because the phrase "in danger of becoming" is not defined elsewhere in the law, the criteria used by

DEPARTMENT OF EDUCATION—Continued

school district administrators in determining which pupils are to be placed in opportunity classes may vary significantly. The Legislature, therefore, may wish to specify more clearly the conditions under which districts may assign additional students to opportunity classes.

Our review also indicates that, by expressing the limitation on a district's incentive funds in terms of enrollment ($400 per additional pupil), SB 813 fails to relate the maximum reimbursement to the amount of additional workload which would be imposed by expansion of opportunity classes. Because the purpose of such classes is to return the student to a regular classroom as quickly as possible, the "turnover" of individual students in opportunity classes typically is high. As a result, the *number of students* enrolled in these classes at one time or another during the year does not measure accurately the additional workload which the enrollment of these students in opportunity classes impose on the district. The Legislature, therefore, may also wish to consider specifying the funding limitation in terms of units of average daily attendance (ADA), rather than in terms of headcount enrollment.

We address these issues later in this *Analysis.*

14. Transportation Adjustments

Senate Bill 813, as amended by AB 70, makes several changes in state funding provisions for home-to-school transportation programs operated by school districts or county superintendents of schools. These changes are as follows:

- The home-to-school transportation program is redefined to include transportation of special education students. Previously, special education transportation was funded separately.
- Beginning in 1984–85, a district's state transportation allowance will be based on the *lesser* of (1) the state transportation *allowance* received in the preceding fiscal year or (2) the prior fiscal year's approved transportation *expenditures* plus 5 percent of the state allowance received. In either case, the amount is to be increased by any inflation adjustment provided in the Budget Act. (Previously, districts received the lesser of prior-year approved expenditures or the state allowance received, increased by the inflation adjustment provided in the Budget Act.)
- Beginning in 1984–85, any district receiving a transportation allowance must establish a district transportation fund, into which all state transportation allowances must be deposited. A district may also deposit in its transportation fund other revenues, provided they are used exclusively for approved transportation costs. The act further provides that if a district discontinues its transportation program, any unencumbered funds remaining in the transportation fund shall be transferred to the district's general fund and the Superintendent of Public Instruction shall reduce the district's state apportionment by an equivalent amount.
- Replacement of school buses is included as an approved transportation cost for purposes of the new transportation allocation program.
- After July 1, 1984, districts may no longer transfer transportation "encroachment" costs between the home-to-school transportation program and the district's general aid apportionment. (Frequently, a district's actual transportation costs exceed the maximum allowance

provided by the transportation program. The amount of excess transportation costs financed from district general funds is referred to as the "encroachment" amount.) Until July 1, 1984, a district may specify whether it wishes to have this amount funded in subsequent fiscal years out of its general aid apportionment or through its home-to-school transportation allowance. A district may wish to transfer some or all of the encroachment amount between transportation and general aid funding requests when inflation adjustments differ between the two programs or when transportation expenditures change from year to year.

Implementation Status. At the time this *Analysis* was prepared, the Department of Education was developing guidelines to implement the new transportation provisions.

Our analysis has identified the following issues which the Legislature may wish to address:

- ***No Definition of Approved Expenditures.*** Senate Bill 813 eliminates the provisions of the Education Code which grant the Department of Education regulatory authority to define approved transportation expenditures for the purpose of determining reimbursement allowances. At the same time, however, the act requires each school district or county superintendent requesting reimbursement to certify that its approved transportation expenditures were a specified percentage of the state allowance received in the prior fiscal year. In the absence of regulatory authority, it is not clear what documentation or other requirements the Department of Education may impose upon districts to justify their claims for transportation reimbursements.
- ***Deletion of Certain Costs.*** As noted above, SB 813 eliminates the separate special education transportation program and provides that funding for a portion of this program is to come from the home-to-school transportation program. In so doing, however, the act eliminates reimbursements to school districts for certain transportation costs which previously were funded under the special education transportation program. Specifically, the act repeals provisions of prior law which permitted districts to receive reimbursements for the costs of transportation—other than home-to-school—which is required by a student's individualized education program (for example, transportation to off-campus physical therapy). The Legislature may wish to amend the law to allow districts to receive reimbursement for these additional transportation costs.
- ***Bus Replacement.*** Assembly Bill 70 includes bus replacement within the definition of approved transportation costs. Beginning July 1, 1984, transportation allowances for most districts will be based upon the state allowances received in the prior fiscal year for approved transportation costs. During 1983–84, some districts will have received allowances for bus replacement in addition to their normal operating costs. At the time this *Analysis* was prepared, the Department of Education had not determined whether allowances for bus replacement costs would be included when establishing a base for calculating reimbursements in subsequent fiscal years. If these amounts *are* included, districts which received allowances for bus replacement during 1983–84 would receive substantially larger transportation allowances in future years than districts which did not receive such bus replacement funds, even though their ongoing transportation expenses are similar.
- ***Transportation Fund.*** The requirement that districts establish a transportation fund may impose a procedural and paperwork burden

DEPARTMENT OF EDUCATION—Continued

upon school districts. The objective of restricting the expenditure of transportation allowances to transportation operations and bus replacement and maintenance could be achieved at less administrative expense to districts by requiring each district to establish a restricted account in its general fund.

These issues are discussed in greater detail in our analysis of the budget request for school transportation.

15. Small School District Buses

Senate Bill 813, as amended by AB 70, appropriated $1 million in 1983–84 for the replacement or reconditioning of school buses for school districts with 2,500 or fewer ADA. Prior to SB 813's enactment, school districts received reimbursement allowances for bus replacement and for excessive reconditioning expenses. The allowance for bus replacement was based upon the original purchase price of the bus to be replaced, less its resale value, and did not reflect current replacement costs. In addition, there was a delay of one year or more between the replacement or reconditioning of a school bus and a district's receipt of any reimbursement, since transportation allowances are based on prior fiscal year expenditures. Because the cost of replacing or reconditioning a single bus may represent a significant share of a small school district's annual budget, the unreimbursed portion of bus replacement or reconditioning costs and the delay between expenditure and reimbursement were identified as major problems for small districts' transportation programs.

With respect to the allocation of funds appropriated by SB 813, the act assigns first priority to the replacement of existing school buses which the California Highway Patrol certifies are unsafe and which would not be safe if reconditioned. Reconditioning of school buses which the California Highway Patrol certifies are unsafe but which would be safe if reconditioned is the second priority for funds appropriated by SB 813. The third priority is the purchase of new buses to increase the size of a district's fleet. New buses are to be purchased through the Department of General Services, insofar as is possible.

Implementation Status. The act directs the Department of Education to adopt regulations regarding district applications for small district bus funds. The department, however, has chosen not to adopt regulations. Instead, it has chosen to solicit and review applications from school districts based upon the criteria established by SB 813 and AB 70. In addition, the department has adopted the policy that if a bus's reconditioning costs exceed one-half the cost of replacing the bus, a district shall qualify for bus replacement funding instead of reconditioning funds. The department advised districts that the smaller a district's bus fleet, the older the bus to be replaced or reconditioned, and—for bus replacement only—the greater the estimated reconditioning costs, the higher would be the priority granted to the district in allocating replacement or reconditioning funds. Eligible school districts were asked to submit applications by November 10, 1983. Applications submitted after that date were to receive consideration for apportionment of any funds remaining after the initial applications were processed.

The Department of Education received 136 applications, requesting approximately $3.4 million for school bus replacement or reconditioning. The department expected to notify all applicants of the action taken on their applications by January 1984. Because the amount requested greatly exceeds the amount appropriated by SB 813 ($1 million), the department anticipates that only applications for school bus replacement funds will be approved. For the same reason, no applications submitted after November 10, 1983 will be approved.

The Governor's Budget includes $3 million to continue funding for small school district school bus replacemment and reconditioning in 1984–85.

Our analysis has identified the following issues concerning the small school district transportation program which the Legislature may wish to address:

- *Priorities.* Should bus replacement continue to be the first priority if funds are appropriated for this purpose in 1984–85? Since bus reconditioning generally is less costly than bus replacement, more districts could be assisted in upgrading their bus fleets if funds were directed to reconditioning. Yet, reconditioning may in some cases only delay the need for bus replacement.
- *No Matching Requirement.* Should funds be provided for the full costs of bus replacement and reconditioning, or should the program include a matching requirement? If matching were required, a limited amount of state funds could be used to assist more districts. In addition, districts would be provided fiscal incentives to choose the most cost-effective solution to their transportation needs.

STUDIES AND COMMISSIONS

In this section, we discuss the new studies and commissions authorized by SB 813.

1. Commission on School Governance and Management

Senate Bill 813 establishes a 15-member Commission on School Governance and Management, to "conduct appropriate studies and make recommendations to the Legislature and the Governor" on the following topics:

- Methods of eliminating duplication of effort among, and consolidating functions performed by, the State Department of Education and various regional and local education agencies.
- The appropriate size and scope of authority for schools needed in order to improve educational management capabilities and facilitate community participation in policy development.
- Reasons for the growth in the number of nonteaching personnel in schools over the past 12 years.
- The appropriate taxing authority to be granted school districts.

The commission is required to submit its initial report to the Legislature and the Governor by October 1, 1984.

The act provides that each of the following five persons or groups shall appoint two members to the commission: the Speaker of the Assembly, the Senate Rules Committee, the Governor, the State Board of Education, and the Superintendent of Public Instruction. The remaining five committee members, who shall serve ex officio, include the Superintendent of Public Instruction, the Director of Finance, the Legislative Analyst, the Chancellor of the Community Colleges, and the Secretary of Health and Welfare. Staff support to the commission is to be provided by the Department of Education. The commission may also contract for additional technical assistance and support.

Implementation Status. Senate Bill 813 appropriated no funds for the support of the Commission on School Governance and Management.

DEPARTMENT OF EDUCATION—Continued

The Governor's Budget provides no funds for this purpose in 1984–85.

At the time this *Analysis* was prepared, the appointments to the Commission on School Governance and Management had not been made, and consequently, the commission had not begun its work.

2. Studies of Dropouts and High School Accreditation

Senate Bill 813 requires the Superintendent of Public Instruction to report to the Joint Legislative Budget Committee (JLBC) by November 15, 1983, regarding the feasibility of conducting two studies:

- a study of the characteristics of students who drop out of school prior to high school graduation, and
- a study of the high school accreditation process administered by private accreditation associations.

The latter report may include recommendations regarding any revisions in the high school accreditation process which are needed to make it "a viable tool in the evaluation of the quality of the public secondary schools."

Based upon the feasibility reports, the JLBC is to determine the appropriate levels of funding, if any, to conduct these studies.

Implementation Status. At the time this *Analysis* was written, the State Department of Education had convened advisory committees and, based on their recommendations, had prepared draft reports in response to the statutory requirements noted. The final reports, however, had not been submitted to the Joint Legislative Budget Committee. We have been informed that they will be submitted prior to budget hearings. We will review the reports and prepare recommendations for the Legislature as appropriate.

3. Studies of School Facilities and Architectural Standards

Senate Bill 813 requires the Department of Education to complete two studies related to school construction by March 1, 1984:

- a study of the feasibility of developing and maintaining an automated school facilities inventory that would be capable of indicating statewide school facility utilization rates, projecting facility needs, and allocating funds for new construction, maintenance and rehabilitation; and
- a study of the appropriateness of existing architectural standards and the type of building materials used for school facilities.

Implementation Status. At the time this *Analysis* was prepared, the Department of Education had gathered much of the information needed to complete both reports.

- ***The facilities inventory feasibility study.*** The department has contacted school districts and other agencies within California, as well as in other states with ongoing facilities information systems, for assistance in developing data collection procedures. The department is also working to identify data processing procedures which could be utilized to make projections of facilities needs.
- ***The architectural standards study.*** The department has conducted three meetings around the state with architects and school district personnel, and is preparing a draft outline of its report.

The department anticipates completion of both of these reports on or before March 1, 1984. We will review the reports and prepare comments on them for the Legislature, as appropriate.

II. DIRECT SUPPORT FOR K-12 EDUCATION

This section analyzes those programs which provide direct—as opposed to ancillary—support for K-12 education activities, including both general and specialized education programs. General education programs include school apportionments, support for county offices of education, Urban Impact Aid, and Meade Aid. Specialized education programs include (1) programs to improve classroom instruction (2) programs to strengthen teaching and administration, (3) the Special Education program, (4) vocational education programs, (5) compensatory education programs, and (6) other education programs. Table 12 summarizes funding for these programs in the prior, current, and budget years.

Table 12

Direct Support for K-12 Education

1982–83 through 1984–85

(in millions)

	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Change Amount*	*Change Percent*
A. General education programs					
1. School apportionments	$7,618.2	$8,326.7	$9,074.1	$747.4	9.0%
2. County offices of education	139.9	157.4	167.3	9.9	6.3
3. Urban Impact Aid/Meade Aid	67.1	71.1	82.4	11.3	15.9
4. Contributions to State Teachers Retirement Fund	235.5	61.5	579.4	517.9	N/A
5. Other general education	1,023.5	1,104.1	1,188.4	84.3	7.6
Subtotals, General Education Programs	$9,084.2	$9,720.8	$11,091.6	$1,370.8	14.1%
B. Specialized education programs [a]					
1. Programs to improve classroom instruction	$208.1	$262.3	$322.5	$60.2	23.0%
2. Programs to strengthen teaching and administration	12.0	22.3	49.6	27.3	122.4
3. Special education programs	907.1	982.7	915.4	−67.3	−6.8
4. Vocational education programs	202.7	229.5	225.8	−3.7	−1.6
5. Compensatory education programs	454.3	566.8	572.8	6.0	1.1
6. Other specialized education	59.7	64.8	72.8	8.0	12.3
Subtotals, Specialized Education Programs	$1,843.9	$2,128.4	$2,158.9	$30.5	1.4%
C. State and court mandates	$164.3	$180.8	$170.5	−$10.3	−5.7%
Totals	$11,092.4	$12,030.0	$13,421.0	$1,391.0	11.6%
General Fund	*$7,150.5*	*$7,640.3*	*$8,854.2*	*$1,213.9*	*15.9%*
Local funds	*3,418.2*	*3,759.2*	*3,935.7*	*176.5*	*4.7*
Federal funds	*465.3*	*587.6*	*588.9*	*1.3*	*0.2*
Other state funds [b]	58.4	42.9	42.2	−0.7	−1.6

[a] Includes local assistance amounts only.

[b] Includes State School Fund, Driver Training Penalty Assessment Fund, and Motor Vehicle Account of State Transportation Fund.

DEPARTMENT OF EDUCATION—Continued

A. GENERAL EDUCATION PROGRAMS

We define general education support funds as those funds which can be used at the local district's discretion, and which are not associated with any specific pupil services program. These funds generally will be used to provide services for all students, and include school apportionments, Urban Impact Aid, and other miscellaneous funds such as school meal charges, federal PL 81-874 revenues, and state contributions to the State Teachers' Retirement Fund.

As shown in Table 13, the budget proposes total general education expenditures (consisting of apportionments and other expenditures) of $11,092 million in 1984–85. This is an increase of $1,371 million, or 14.1 percent, over the current-year amount, and is composed of a 20 percent increase in General Fund support and a 4.5 percent increase in revenues from local sources. Support from other state funds is expected to remain constant at $25 million, while federal aid is expected to stay at the 1983–84 level.

The budget proposes $9,241 million in general education apportionments for K-12 districts and county offices of education in 1984–85. This is an increase of $757 million, or 8.9 percent, over the amount provided in 1983–84. The state General Fund contributes 70 percent of the total, while local property taxes account for 30 percent.

Table 13
General Education Expenditures
1982–83 through 1984–85
(in millions)

	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Change Amount*	*Change Percent*
A. General Education Apportionments					
K–12 districts	$7,618.2	$8,326.7	$9,074.1	$747.4	9.0%
State	(5,295.2)	(5,746.7)	(6,420.4)	(673.7)	(11.7)
Local	(2,323.0)	(2,580.0)	(2,653.7)	(73.7)	(2.9)
County offices	139.9	157.4	167.3	9.9	6.3
State	(65.1)	(82.3)	(81.9)	(−0.4)	(−0.5)
Local	(74.8)	(75.1)	(85.4)	10.3)	(13.7)
Subtotals	$7,758.1	$8,484.1	$9,241.4	$757.3	8.9%
State	($5,360.3)	($5,829.0)	($6,502.3)	($673.3)	(11.6%)
Local	(2,397.8)	(2,655.1)	(2,739.1)	(84.0)	(3.2)
B. Other General Education					
Meals for Needy Pupils, Apprenticeship Programs	$23.1 [a]	$24.2	$25.0	$0.8	3.3%
Federal PL 81-874	44.0	40.0	40.0	—	—
Urban Impact Aid	58.0	61.5	72.5	11.0	17.9
Meade Aid	9.1	9.6	9.9	0.3	3.1
Transfer to State Teachers' Retirement Fund	235.5	61.5	579.4	517.9	N/A
Miscellaneous	956.4	1,039.9	1,123.4	83.5	8.0
Subtotals	$1,326.1	$1,236.7	$1,850.2	$613.5	49.6%
Totals	$9,084.2	$9,720.8	$11,091.6	$1,370.8	14.1%
General Fund	*$5,647.9*	*$5,960.8*	*$7,164.1*	*$1,203.3*	*20.2%*
State School Fund	*38.5*	*25.0*	*25.0*	—	—
Federal funds	*44.0*	*40.0*	*40.0*	—	—
Local funds	*3,354.2*	*3,695.0*	*3,862.5*	*167.5*	*4.5*

[a] Includes $0.9 million for pilot programs to improve attendance.

Other general education expenditures are expected to be $1,850 million in 1984–85, an increase of $613 million, or 50 percent, over the current-year level. The majority of this increase, however, is attributable to increases in contributions to the State Teachers' Retirement Fund (STRF). The Governor vetoed $211 million in funding appropriated by the Legislature for STRF in 1983–84. The 1984–85 budget restores the deleted amount and proposes $307 million in additional contributions for 1984–85. Thus, the contribution to STRF is $518 million above the 1983–84 level.

1. School Apportionments (Items 6100-101-001 and 6100-106-001)

Under California's system of financing schools, general education apportionments are allocated to school districts through a "revenue limit" system. Each school district has a specific revenue limit per unit of average daily attendance (ADA) which is based, in part, on the district's historical level of expenditures. The revenue limit represents the level of expenditures per ADA for which the district is funded through a combination of local property taxes received by school districts and state general fund aid. In effect, the state provides enough funds to make up the difference between each district's property tax revenues per ADA and its revenue limit per ADA.

a. 1984–85 Budget Changes

Table 14 displays the changes from 1983–84 to 1984–85 in the amount proposed from the General Fund to support general education apportionments to K–12 districts and county offices of education. The table shows that *to maintain the existing program*, the budget reflects (1) a $49.6 million increase to fund additional ADA in district and county office of education programs, (2) a $375 million reduction in General Fund costs resulting from an equivalent increase in local property tax revenues, (3) a $465 million increase to provide a 5.5 percent statutory cost-of-living adjustment (COLA) for apportionments to K–12 districts ($456 million) and county offices of education ($9.0 million), (4) a $457 million increase to fund the additional costs of SB 813 related to general education apportionments, and (5) a $4.7 million reduction due to other changes. These baseline changes yield a net increase in funding of $591 million.

In addition to the baseline changes, the administration has made two significant *budget change proposals*. First, the budget proposes a 3 percent COLA for apportionments to K–12 districts and county offices of education, in lieu of the amount called for by statute. This proposal, in effect, calls for a reduction in apportionment aid from the amount established by existing law (SB 813) equal to $209 million. Of this reduction, $205 million is associated with apportionments to K–12 districts and the remaining $4.1 million is associated with apportionments to county offices of education.

Second, the budget proposes to shift $291 million of supplemental property tax roll revenues from K–12 districts and county offices of education to cities, counties, and other local government entities. This shift results in a dollar-for-dollar increase in General Fund support for school apportionments. The net result of the two budget change proposals is to increase General Fund support for general education apportionments by $82.1 million.

DEPARTMENT OF EDUCATION—Continued

Table 14
General Education Apportionments
Changes Proposed for 1984–85
General Fund
(in millions)

1983–84 General Fund Expenditures (Revised)			$5,829.0
A. Changes to Maintain Existing Program:			
ADA change		$49.6	
Increase in local property taxes		−374.9	
Statutory inflation adjustments:		464.6	
K–12 districts	(455.6)		
County offices	(9.0)		
Senate Bill 813		456.6	
Incentives for longer day/year	(256.9)		
Beginning teacher salaries	(12.5)		
Summer school	(42.1)		
Equalization aid	(145.1)		
Other baseline changes		−4.7	
Total, changes to maintain existing program			591.2
B. Budget Change Proposals			
Reduction in Statutory Inflation adjustments:		−208.8	
K–12 districts	(−204.7)		
County offices	(−4.1)		
Property tax shift		290.9	
Total, Budget change proposals			82.1
1984–85 General Fund Expenditures (Proposed)			$6,502.3
Change from 1983–84:			
Amount			$673.3
Percent			11.6%

The total change (baseline adjustments and program changes) in General Fund support for K–12 apportionments is an increase of $673 million, or 12 percent, over the 1983–84 level. This results in a total General Fund appropriation for general education apportionments in 1984–85 of $6,502 million.

Clarification Needed on Computation of Statutory COLA

We recommend that legislation be enacted to specify that revenue limits for school districts and county offices of education shall receive an annual inflation adjustment based on the ratio of the Implicit Price Deflator for State and Local Government Purchases in the preceding calendar year to the deflator in the year before the preceding calendar year, because current law is vague and does not accurately reflect changes in school district costs.

Senate Bill 813 significantly changes the method for computing cost-of-living adjustments in per-pupil revenue limits. Under prior law, each school district received an inflation adjustment on its per-pupil revenue limit based on a dollar amount specified in statute for districts of its particular size (large or small, as measured by ADA) and type (elementary, high school, and unified). Districts with revenue limits above the statewide average generally received a smaller COLA than districts with revenue limits below the statewide average.

Senate Bill 813, instead, provides that all districts of the same type, and county offices of education, shall be granted the same dollar amount as a COLA. The COLA is to be determined by "the change in the Implicit

Price Deflator for Government Goods and Services . . . for the prior fiscal year."

We recommend that four changes be made in the computation of inflation adjustments for revenue limits.

First, we recommend that the revenue limit COLA be tied to the *percentage* change (ratio between years) in the adopted inflation index, rather than the absolute change in the index. This is merely a clarifying, technical change. It is proposed in the trailer bill to the budget and we recommend that it be approved.

Second, we believe that the inflation index should be the Implicit Price Deflator for *State and Local* Government Purchases of Goods and Services, instead of the SB 813 Implicit Price Deflator for Government Goods and Services. The former index is a more accurate measure of the change in costs faced by school districts because it measures costs faced by state and local governments only. The SB 813 index includes costs incurred by *all* levels of government, including the federal government. Thus, it captures changes associated with defense spending, transfer payments, and national debt payments which are not appropriate in determining revenue limit COLAs.

Third, we recommend that the statutory COLA for revenue limits be based on the ratio of the state and local government implicit price deflator for the latest available calendar year to that of the preceding year. Because existing law requires the change in the index to be measured between the current and prior fiscal years, the exact magnitude of the required statutory COLA cannot be known until *after* the beginning of the budget year. (For example, the statutory COLA for 1984–85 is based on the ratio of the Government Purchases deflator for 1983–84 to that for 1982–83. The 1983–84 fiscal year figure will not be known, however, until after June 1984.) By basing the statutory COLA on the change in the index between the most recent available *calendar* year and the prior calendar year, this problem would be eliminated.

Finally, we recommend that the computation be based on the ratio of the *average annual* implicit price deflators between calendar years, rather than on a point-to-point measurement. Using average annual values minimizes random fluctuations in the index values, thereby ensuring a more accurate measurement of the effects of inflation.

Accordingly, we recommend that legislation be enacted to specify that the statutory cost-of-living adjustment to revenue limits shall be based on the *ratio* of the *average annual* Implicit Price Deflator for *State and Local* Government Purchases of Goods and Services for the United States, as published by the U.S. Department of Commerce, for the latest available *calendar* year to that of the preceding calendar year.

Adoption of this alternative index would result in a statutory COLA of 6.1 percent, as opposed to an estimated 5.5 percent COLA provided by current law, for 1984–85.

Revenue Limit Adjustment for PERS Contribution

We recommend that at the time of budget hearings, the Department of Finance explain why the budget does not provide funding to increase school district revenue limits so as to reflect termination of the PERS reduction pursuant to SB 813 (Ch 498/83).

Pursuant to Ch 330/82 (SB 46), the Public Employees Retirement Board reduced employer contributions for PERS paid by school districts and county offices of education in 1982–83. In recognition of this cost reduc-

DEPARTMENT OF EDUCATION—Continued

tion, the Legislature provided for a corresponding reduction in district and county office revenue limits in (1) the Budget Act of 1982 and (2) the trailer bill (Ch 323/83) to the Budget Act of 1983. Because the employer contribution rates were increased in 1983, the Legislature, in SB 813, provided for the termination of the revenue limit reduction for school districts at the end of the 1983–84 fiscal year.

Despite this provision of SB 813, the budget continues the revenue limit reduction in 1984–85 for both K-12 school districts and county offices of education. The trailer bill contains language making the revenue limit reduction, first imposed by the 1982 Budget Act, *permanent.* (Current law already requires a permanent reduction to revenue limits of county offices of education because SB 813, while terminating the reduction for K-12 districts, did not provide for a similar adjustment for county offices.)

Because SB 813 provided for the termination of the revenue limit reduction, we recommend that the Department of Finance explain why the budget does not provide funding for the corresponding revenue limit increase for 1984–85.

Apprenticeship Programs "COLA" Not Justified

We recommend that the Legislature adopt Budget Bill language which defines the instructional hour as 60 minutes, including passing time of up to 10 minutes, for purposes of funding related and supplemental instruction for apprenticeship programs, for a General Fund savings of $1,000,000. (Reduce Item 6100-101-001 by $877,000 and reduce Item 6100-226-001 by $123,000).

In California, those seeking to learn a skill or trade may receive on-the-job training through apprenticeship programs. These programs offer on-site instruction in various trades such as carpentry, plumbing, welding, and nursing. In order to be considered for an apprenticeship, the applicant, in most cases, must (1) be at least 18 years old, (2) hold a high school diploma, and (3) pass a written test and an oral interview. Once selected for an apprenticeship, the individual is expected to work full-time under the supervision of a journeyman in the trade. The apprentice usually receives a salary equal to 50 percent of the journeyman's salary or an amount specified through collective bargaining.

As part of the program, the individual is expected to complete 144 hours of "related and supplemental instruction" for each year of the apprenticeship. This instruction is offered by school districts, community colleges, and the direct sponsors of the apprentices. In general, this component of the program provides the apprentice with textbook instruction which could not be provided effectively at the job site. In 1983–84, approximately 9,320 apprentices will receive related and supplemental instruction through school district programs.

Prior to the enactment of SB 813, school districts and community colleges received $3.25 for each "clock hour" of related and supplemental instruction provided to each apprentice. Senate Bill 813 required instead that $3.25 be provided for each "50-minute hour" of related and supplemental instruction. The apparent objective of this change was to eliminate confusion among some providers regarding the amount of direct instructional time which constituted a "clock hour." In claiming reimbursements, some providers assumed that 50 minutes of instruction plus 10 minutes for passing time and breaks constituted a "clock hour," while others assumed that instruction for the full 60 minutes was required. The SB 813 reform measure attempted to put an end to the confusion by specifying that the $3.25 reimbursement rate would be applied to a "50-minute clock hour," thus presumably excluding passing time and breaks.

The State Department of Education (SDE), however, interprets this change differently. Under SDE's interpretation, providers are entitled to claim both direct instructional time *and* passing time in determining the amount of their reimbursements. Thus, under this interpretation, a school district which offers 50 minutes of instruction and 10 minutes of passing time is entitled to a reimbursement of $3.90 (50 minutes at $3.25 plus 10 minutes at $0.65). Put another way, the department interprets SB 813 as, in effect, having granted a 20 percent COLA to apprenticeship programs' reimbursement rates. The level of funding provided in the budget reflects this interpretation.

We find the Department of Education's interpretation of legislative intent highly questionable. Moreover, our analysis indicates that a 20 percent COLA for these programs is not justified. The labor code already provides a means by which school districts and community colleges can secure additional funds in the event they conclude that state apportionments are insufficient to support related and supplemental instruction for apprenticeship programs. Specifically, if a local education agency (LEA) provides related and supplemental instruction and incurs costs greater than the $3.25 per hour per student, it may bring its case before the Joint Apprenticeship Training Council (usually, the local program sponsor). If the LEA is able to document that its costs associated with providing instruction to the apprentices exceeds the state apportionment, the council may require the local program sponsor to reimburse the LEA for these excess costs. Funds for this purpose would be provided, in most cases, from the Joint Apprenticeship Training Council Fund, which is supported by the contributions of both apprentices and journeymen. Neither the Department of Education nor the Department of Industrial Relations' Division of Apprenticeship Standards (the body governing the apprenticeship program) has records indicating that any school district has sought funding for costs in excess of the $3.25 per hour rate.

Accordingly, we recommend that the following Budget Bill language be adopted to eliminate the confusion surrounding the definition of the instructional hour and to eliminate funding for the 20 percent COLA provided in the budget to the apprenticeship program:

> "Notwithstanding Section 8152 of the Education Code, each 60-minute hour of teaching time devoted to each indentured apprentice enrolled in and attending classes of related and supplemental instruction as provided under Section 3074 of the Labor Code shall be reimbursed at the rate of three dollars and twenty-five cents ($3.25) per hour. For purposes of this provision, each hour of teaching time may include up to 10 minutes for passing time and breaks."

Consistent with this language, we recommend that Item 6100-101-001 be reduced by $877,000 and Item 6100-226-001 be reduced by $123,000.

Fullerton-Rowland Case—Control Section 24.50

We recommend approval.

Control Section 24.50 prohibits the payment of any claims for additional school apportionments arising from provisions of the Education Code which, prior to 1977, permitted school districts to double-count vocational

DEPARTMENT OF EDUCATION—Continued

education average daily attendance (ADA). The language further prohibits the payment of two specific claims, by the Fullerton Joint Union High School District and the Rowland Unified School District, under the terms of out-of-court settlements agreed to by the districts and the State Department of Education. The language proposed in the Budget Bill is identical to language adopted by the Legislature in Control Section 24.50 of the 1983 Budget Act.

Background. In 1967, legislation was enacted which permitted school districts to double-count, for purposes of computing ADA, students enrolled in "a vocational education program occupationally organized and conducted under federal approval." In interpreting this legislation, the Department of Education *administratively determined* that these provisions permitted school districts to claim additional ADA credit *only* for high school students attending classes in Regional Occupational Centers or Programs (ROC/Ps).

In 1975, the department discovered that additional ADA credit had, since 1971, been claimed by the Garden Grove Unified School District for vocational education students *not* enrolled in ROC/Ps. (Due to the method of reporting ADA, the department had not previously detected this.) The department took no action to recapture the funds which had been claimed by, and paid to, the Garden Grove District. Instead, the department continued to provide apportionments to Garden Grove in 1975–76 and 1976–77 on the basis of the double-counted vocational education ADA.

In an effort to clarify the provisions of law governing the calculation of vocational education ADA, the Legislature, in 1977, amended this section of the Education Code to clearly prohibit, *on a prospective basis,* the practice of double-counting "regular" vocational education ADA. Because Garden Grove had, since 1971, relied on these provisions to receive additional funding for its vocational education program—and had expanded its program assuming that these funds would continue to be forthcoming—the Legislature also provided a permanent adjustment to the base revenue limit of any district which had claimed additional vocational education ADA under this section in 1976–77 or earlier. At the time the legislation was enacted, it was thought that *only* Garden Grove would qualify for such an adjustment.

In 1978, however, the Fullerton Joint Union High School District filed amended attendance reports with the Department of Education for 1975–76 and 1976–77, claiming additional vocational education ADA. (Both existing law at the time and current law permit districts to file such reports within three years of the original filing date.) Fullerton claimed that, like Garden Grove, it was entitled to double-count regular vocational education ADA during these years, even though Fullerton had not predicated its funding for vocational education in 1975–76 and 1976–77 on this assumption. On this basis, the district claimed it was entitled to an additional $3.2 million in school apportionments, which the Controller disbursed on June 28, 1979.

Three months later, on September 28, 1979, legislation was enacted which attempted to prohibit districts from filing amended attendance reports to claim double-counted vocational education ADA, providing as follows:

"As a clarification of the intent of the law, a district, which had not submitted attendance documents of pupils pursuant to Section 46140 under a vocational education program occupationally organized and conducted under federal approval in 1976–77, other than a regional occupational program or regional occupational center, at the time the attendance reports were originally due, shall not have the right at a later date to submit amended attendance documents to have credited this attendance."

Acting under the authority of this provision, the department recaptured the $3.2 million in additional payments to Fullerton, by reducing the district's apportionments during February through May 1980.

In response to this action, Fullerton sought a writ of mandate and other judicial relief challenging the department's action. This request was denied at the trial court level. In an appeal, Fullerton was joined by the Rowland Unified School District (which had similar factual circumstances). In January 1983, the Fourth District Court of Appeal ruled against the state and in the school districts' favor.

In its decision to uphold the position of Fullerton and Rowland, the Court of Appeal interpreted the 1979 clarification of legislative intent, cited above, as applying prospectively only. That is, the court held that this language only prohibits the filing of amended attendance reports by those districts that had not done so prior to September 28, 1979, when the new language took effect. Because Fullerton and Rowland filed their amended reports with the Department of Education prior to this date, the court concludes that they were valid and must be honored.

Potential State Liability. Under the terms of the Court of Appeal decision, Fullerton and Rowland could be entitled to receive:

- The full amount of the funds which they had previously received for additional vocational education ADA claimed for 1975–76 and 1976–77, but which subsequently were reclaimed by the Department of Education.
- The value of an adjustment to these districts' base revenue limits on account of the double-counted vocational education ADA (similar to that provided Garden Grove) for 1977–78 through 1983–84.
- Interest on these two amounts, computed from the date that each distribution of funds should have been made during 1979–80 through 1983–84.
- A permanent adjustment to the districts' base revenue limits in 1984–85 and thereafter.

We estimate that payment of these amounts would result in a one-time cost of approximately $15 million in 1984–85 and ongoing costs of approximately $650,000 annually.

Acting on the advice of the Attorney General, the Department of Education on March 4, 1983, entered into out-of-court settlements with the Fullerton and Rowland districts, under which the districts agreed to accept less than the full amounts to which they might otherwise be entitled under the terms of the court decision. These settlement agreements, if honored by the Legislature in 1983–84, would have resulted in a one-time cost of approximately $11.0 million and no ongoing costs in 1984–85 and thereafter. (The terms of these agreements are now, for all intents and purposes, invalid.)

The potential state liability under the Court of Appeal decision is not, however, limited to the claims of the Fullerton and Rowland districts. The Department of Education has on file similar claims for apportionments

DEPARTMENT OF EDUCATION—Continued

based on double-counted vocational education ADA from 25 additional school districts. The department estimates that payment of these claims would result in additional state costs in excess of $40 million.

Analysis. Our analysis indicates that, as a matter of law, the extent to which the Legislature may succeed in preventing the payment of districts' claims for additional apportionments based on double-counted vocational education ADA is unclear. While the court cannot force the Legislature to provide funding for the claims of Fullerton, Rowland, and other similarly-situated districts, it can force the payment of an award out of any amount appropriated for school apportionments. If it did so, the amount received by these districts would be at the expense of all other school districts in the state. That is, an overall deficit in school apportionments would occur.

In adopting Control Section 24.50 of the 1983 Budget Act, however, the Legislature decided that the payment of substantial amounts of funds to certain school districts solely on the basis of additional, retroactively claimed, vocational education ADA was not justified as a matter of policy. The 1984–85 Budget Bill proposes to continue this same language, and we recommend that it be approved.

Continuation Education Leave of Absence Program

Chapter 829 of the Statutes of 1981 (Education Code Section 48416) establishes procedures under which specified pupils may be granted leaves of absence from compulsory continuation education classes. Specifically, such leaves may be granted if the student will, at the time the leave is to begin, be 16 or 18 years of age and all of the following conditions are met:

- The school district governing board adopts a written policy to allow such leaves of absence,
- The purpose of the leave is supervised travel, study, training, or work not otherwise available to the student, and
- A written agreement is signed by the student, his or her parent or guardian, and specified school personnel, stipulating the terms and conditions of the leave of absence.

The statute provides that leaves of absence may be granted for an initial period of up to two semesters, and may be extended for one additional semester. In addition, the measure provides that no more than one percent of the students enrolled and in attendance at each school may be granted leaves of absence pursuant to its provisions annually. The provisions authorizing the leave of absence program are repealed by force of their own terms on July 1, 1987.

Report Requirement. The statute requires the Legislative Analyst to review and report upon the leave of absence program in the *1984–85 Analysis of the Budget Bill,* and provides that "the report shall be based upon data collected by the State Department of Education from a representative sampling of participating school districts and shall include an analysis of the racial and ethnic backgrounds of participating pupils and a review of the opinions of pupils, parents, and school district personnel regarding pupil scholastic achievement and attitudes towards schools."

At the time this *Analysis* was written, the State Department of Education was in the process of gathering the information required by Ch 829/81, upon which our report to the Legislature is to be based. Consequently, we are unable to comment on the leave of absence program at this time. The department intends to provide the required information by mid-February. We will review this information and make comments at the budget hearings as appropriate.

b. Incentives for Longer School Day and Year

Senate Bill 813 provides fiscal incentives to school districts to lengthen the instructional day and the school year. The program is voluntary rather than mandatory, and the actual increase in the amount of instructional time offered to students will be determined by the administration of each local district. In 1984–85, the measure provides $35 per ADA to districts that offer a 180-day school year. In addition, the act provides $20 per ADA for students in grades K–8 and $40 per ADA for students in grades 9–12 to districts that meet certain target levels of instruction. The operation of this program is described in greater detail in our overview of SB 813, presented earlier.

The Governor's Budget proposes $256.9 million for this program in 1984–85. The amount is based on the appropriation which was provided by SB 813 but subsequently vetoed by the Governor.

Incentive Payments Overbudgeted

We recommend that funding for incentive payments to increase the length of the school day and year be reduced by $8,500,000 because the proposed level of funding exceeds the program's requirements, for an equivalent General Fund savings. (Reduce Item 6100-101-001 by $8,500,-000).

Before signing SB 813 into law, the Governor vetoed all but $550,000 of the bill's second-year appropriations, including funding for the incentives to increase the length of the school day and year. If SB 813 were fully funded, the appropriation schedule in the bill would provide $256.9 million for this program in 1984–85.

The budget proposes the same level of support for the longer school day and year program that originally was called for in SB 813—$256.9 million. Our analysis indicates, however, that a maximum of only $248.4 million is required to support the program in 1984–85. To the extent that some districts do not qualify for the full amount of incentive funds available, the amount required for the program will be even less.

Like the estimate on which the SB 813 second-year appropriation (and the budget proposal) is based, our estimate assumes 100 percent participation by all school districts. Our estimate differs from the budget proposal, however, in that it employs more recent data on average daily attendance. Specifically, our estimate is based on a projection of 1984–85 ADA made in December 1983, while the budget proposal reflects a similar projection made last July. Accordingly, we recommend that the legislature delete $8.5 million from the amount budgeted for incentive payments to increase the length of the school day and year, to more accurately reflect the *maximum* General Fund requirements for this program in 1984–85.

c. Minimum Teachers' Salaries

Senate Bill 813, as amended by AB 70, provides reimbursements to school districts and county offices of education that increase salaries paid beginning teachers. Specifically, the act provides that the state will reimburse districts and county offices for the costs of increasing the lowest salary on the teachers' pay schedule by 10 percent each year in 1983–84

DEPARTMENT OF EDUCATION—Continued

through 1985–86, to a maximum of $18,000 (adjusted annually for inflation). These local education agencies are also entitled to reimbursement for (1) the costs of increasing any teachers' salaries that would otherwise be below the new minimum salary level and (2) the costs of increased contributions to the State Teachers' Retirement System which are attributable to the minimum salary adjustment. Any funds which a district or county office receives under this program are permanently built into its base revenue limit in succeeding years.

The minimum teachers' salaries provision is described in greater detail in our overview of SB 813.

Proposed Funding Level Exceeds Program Requirements

We recommend that funding for increasing minimum teachers' salaries be reduced to reflect revised estimates of the program's funding requirements, for a General Fund savings of $11.6 million. (Reduce Item 6100-101-001 by $11,600,000.)

Senate Bill 813 appropriated approximately $12.3 million in 1983–84 and $24.7 million in 1984–85 to increase minimum teachers' salaries. The Governor vetoed the 1984–85 funds contained in the bill, but proposes $24.8 million for this purpose in the budget. Both the current-year appropriation and the amount proposed for 1984–85 are based on cost estimates which were developed by the Senate Office of Research in July 1983. These estimates have not been adjusted to reflect more-recent information on the costs of this program.

In order to estimate more accurately the funding requirements for increasing minimum teachers' salaries, we surveyed a sample of school districts to determine the amount of reimbursements which they would be claiming for this purpose in the current year. Our survey was based on a stratified, random sample of 45 school districts. The districts surveyed account for 1,233,000 ADA, or 30 percent of the statewide total. Our survey indicates that both the current year appropriation and the budget year proposal are too high.

Current-Year Costs. The results of our survey indicate that the total amount of reimbursements claimed by school districts under this program in 1983–84 will likely total $3.8 million, or $8.5 million *less* than the current-year appropriation. A statistical analysis of the survey results further indicates that there is less than a 10 percent chance that total claims will exceed $6.3 million. Based on these results, we conclude that the current-year appropriation for increasing minimum teachers' salaries exceeds the requirements of the program by at least $6.0 million. Because the appropriation provisions of SB 813 require the Controller to transfer to the State School Fund the *actual amount* (not to exceed $12.3 million) needed to fund the minimum teachers' salaries provisions, this overbudgeting should result in an equivalent General Fund cost avoidance in the current year.

In an attempt to verify our cost estimate, we requested that the State Department of Education provide us with information on the amount of actual reimbursement claims which had been received as of late December 1983. The department declined to provide this information, stating that the estimate prepared by the Senate Office of Research was "the best estimate currently available." The department noted, however, that "experience to date suggests that the [$12.3 million] estimate may be on the high side."

Budget-Year Costs. The costs of increasing minimum teachers' salaries in the budget year will consist of (1) funds to continue in districts' base revenue limits the amounts provided in 1983–84, and (2) funds to provide an additional 10 percent increase in these salaries (to a maximum adjusted salary of $18,000 plus inflation). As noted, we estimate that the first of these components will cost no more than $6.3 million. We estimate the cost of the second component to be 10 percent greater than that of the first—or approximately $6.9 million. This estimate assumes that the number of positions affected by the minimum salary adjustment would be the same as in 1983–84 and that the cost of the adjustments would not be mitigated by the $18,000 cap. Actual costs could be higher or lower, depending upon the accuracy of these assumptions.

In total, we estimate that the costs of providing *full funding* for the minimum teachers' salaries provisions of SB 813 in 1984–85 will be no more than $13.2 million—or $11.6 million less than the amount proposed for this purpose in the budget. In order to more accurately reflect the funding requirements of this program, therefore, we recommend that the budget be reduced by $11.6 million.

Certification of Adjusted Salary Schedule

We recommend that the Legislature adopt Budget Bill language requiring school districts and county offices of education to certify, as a condition of receiving reimbursements for the costs of increasing minimum teachers' salaries, that they have adjusted their salary schedules to reflect the new minimum salaries actually paid.

As indicated previously in our overview of SB 813, the State Department of Education has advised school districts that, if they accept reimbursements for costs of increasing minimum teachers' salaries in 1983–84, they are not obligated to adjust the salaries shown in their salary schedules to reflect the actual amounts (including the state-funded adjustment) paid to teachers—despite the fact that the state funds are permanently built into the districts' per-pupil revenue limits in subsequent years. As a result, some school district administrators believe that, in 1984–85, they may continue to receive the permanent revenue limit adjustment amount *plus* reimbursement for increasing the lowest *scheduled* salary by 10 percent, while actually paying a minimum salary no greater than that which was paid in 1983–84.

While such an interpretation may not be precluded by the *letter* of SB 813, our analysis indicates that it is clearly inconsistent with the Legislature's *intent* in enacting the measure. In order to ensure that funds provided for the purpose of increasing minimum teachers' salaries will result in a cumulative increase in such salaries of 10 percent per year, we recommend adoption of the following Budget Bill language:

"As a condition of receiving reimbursements for the costs of increasing minimum teachers' salaries, school districts and county offices of education shall certify to the Superintendent of Public Instruction that they have adjusted their salary schedules to reflect the minimum salaries actually paid teachers in 1983–84 and thereafter, including the amount of any increases funded pursuant to Section 45023.7 of the Education Code. Notwithstanding this Section, any school district or county office of education which fails to provide such certification shall be prohibited from receiving in 1984–85 and thereafter any adjustment to its base revenue limit on account of funds provided to increase minimum teachers' salaries in prior years."

DEPARTMENT OF EDUCATION—Continued

d. Summer School

Since the passage of Proposition 13 in 1978, school districts generally have not been provided state support for non-remedial summer school programs. Instead, districts could receive funding only for those students enrolled in summer programs who (1) were in grades 7 to 12 and did not meet district-established proficiency standards, (2) were in grade 11 and, without completion of the summer class, could not graduate on time, or (3) were enrolled in the intersession program of a year-round school.

Senate Bill 813 expands state support for summer school, commencing in 1984–85, to include funding for instruction in math, science, and other core areas designated by the Superintendent of Public Instruction. The measure provided $41.1 million to support expansion of the summer school program in 1984–85. The Governor, however, vetoed these funds before signing the measure into law.

The budget proposes a total of $62.1 million for summer school in 1984–85. This amount includes (1) $17.6 million to fund the base summer school program offered in 1983–84, (2) $41.0 million to fund the expansion of the program pursuant to SB 813, and (3) $3.5 million for a cost-of-living adjustment for both components of the summer school program.

Technical Overbudgeting of Summer School COLA

We recommend that the Legislature delete $1,758,000 provided for apportionments to school districts because the cost-of-living adjustment for summer school programs is overbudgeted, for a General Fund savings of $1,758,000. (Reduce Item 6100-101-001 by $1,758,000).

Our review indicates that the cost-of-living adjustment (COLA) for summer school programs has been budgeted twice—once in the general appropriation to support school district apportionments and once in the appropriation for cost-of-living adjustments. Specifically, the budget proposes $1,758,000 as a cost-of-living adjustment for summer school programs in Item 6100-226-001. In addition, the budget proposes $60,338,000 for general support of summer school programs in Item 6100-101-001, while the amount needed for this purpose is only $58,580,000. (This latter amount includes $17,556,000 for the remedial and intersession summer school programs and $41,024,000 for the supplemental summer school programs in math and science.) The difference between $60,338,000 and $58,580,000—$1,758,000—is the amount of the cost-of-living adjustment that is overbudgeted.

Accordingly, we recommend that Item 6100-101-001 be reduced by $1,758,000 to correct for double-budgeting of the cost-of-living adjustment for summer school programs. In addition, the amount in schedule (f) of Item 6100-101-001 should be reduced by $1,758,000 to reflect the reduction in the summer school appropriation.

COLA For Supplemental Summer School Classes Not Justified

We recommend the deletion of $1,231,000 provided as a cost-of-living adjustment for new supplemental summer school programs in math and science because a cost-of-living adjustment is not justified for a new program, for a General Fund savings of $1,231,000. (Reduce Item 6100-226-001 by $1,231,000).

In addition to the amount overbudgeted for the summer school COLA discussed above, the budget proposes $1,231,000 as a 3 percent COLA for support of summer school programs in math, science, and other core academic areas established pursuant to SB 813. Because this is the *first year* in which these programs will be operative, however, our review indicates that there is no justification for providing them a COLA.

Cost-of-living adjustments are generally granted to appropriations for ongoing programs in order to maintain the level of service from one year to the next. Without a COLA, most programs would be unable to maintain service levels in inflationary times. A cost-of-living adjustment is not justified, however, for one-time appropriations or for appropriations supporting the first year of a program's operations. Because the summer school appropriation first proposed in SB 813 and now proposed in the Governor's Budget was based on program requirements commencing in 1984–85, a 1984–85 COLA in addition to the $41 million base appropriation is inappropriate.

Accordingly, we recommend that the Legislature reduce Item 6100-226-001 by $1,231,000 to eliminate the COLA for the first-year appropriation to support the summer school program authorized by SB 813. In addition, schedule (a) (5) of Item 6100-226-001 should be reduced by $1,231,000 to allocate this reduction properly.

Effective Limit Needed For Summer School Classes in Math and Science

We recommend that the Legislature adopt Budget Bill language limiting the number of hours of supplemental summer school instruction that a district may claim for purposes of school apportionments to 136 hours per pupil times 5 percent of the district's enrollment, because current law does not provide an effective limit on either district entitlements or state costs.

As discussed previously in our overview of SB 813, this measure changes the method used to determine a district's entitlement to state aid for summer school. Prior to the enactment of SB 813, summer school apportionments were based on each district's revenue limit and the number of students attending the program, expressed in units of average daily attendance (ADA). In determining school apportionments, summer school ADA was reduced by a specified factor to adjust for the lower costs generally associated with the summer program. Senate Bill 813 eliminates summer school funding based on ADA and instead establishes a funding system based on hours of student attendance. Specifically, for each school district, a reimbursement rate is to be calculated based on the amount of summer school funding received for the 1983–84 program divided by its total student hours of attendance in that year. In 1984–85, the district-specific funding rate will be applied to all hours of summer school attendance *up to the 1983–84 level.* Additional hours beyond the 1983–84 level will be funded at $1.50 per pupil-hour, regardless of the district's reimbursement rate.

In addition to changing the summer school funding formulas, SB 813 authorizes school districts to receive state support for supplemental summer programs offered in math, science, and other core academic areas designated by the Superintendent of Public Instruction. The law, however, limits to 5 percent of a district's total enrollment the number of students eligible to attend the state-funded, supplemental summer school programs.

Our review indicates that the limit on state-funded, supplemental summer school enrollment does not provide a meaningful limit on the state's

DEPARTMENT OF EDUCATION—Continued

obligation to fund this program. This is because the enrollment limit does not restrict the number of *hours* of summer school attendance which may be claimed for each student enrolled. As a result, two districts of equal size could, for example, each enroll 5 percent of its students in the new summer school classes, and yet claim vastly different entitlements to state reimbursement because of differences in the number of hours taught per student.

The administration has proposed trailer bill language which addresses this problem. Specifically, the language proposes to limit state costs by authorizing districts to receive funding for no more than 136 hours of instruction for each student enrolled in supplemental summer school classes. The 136-hour limit would provide each student with approximately four hours of instruction per day for seven weeks. We believe the 136-hour limit is warranted as a means of establishing an effective cap on state costs.

If the trailer bill language is adopted as proposed, however, our review indicates that it would unduly restrict the ability of school districts to allocate in the most effective manner a given number of state-funded hours of supplemental summer school instruction. As noted, SB 813 limits the total number of *students* in supplemental summer school classes for which state funding shall be provided to 5 percent of a district's enrollment. Thus, if a district enrolled 5 percent of its students in summer school classes for four hours per day, it would receive twice as much funding as if it enrolled 10 percent of its students in such classes for two hours per day—even though the total number of summer school hours were the same.

We can identify no analytical justification for restricting school districts' flexibility in this manner. Instead, we believe that each school district should be granted the flexibility to serve the number of students it deems appropriate, as long as it does so within an overall limitation on funding.

Accordingly, in order to provide a meaningful limit on summer school funding and to provide districts with greater flexibility in meeting the needs of their students in the new summer school programs, we recommend that the following Budget Bill language be adopted:

> "Notwithstanding Section 42239 of the Education Code, the number of hours a school district may claim for purposes of apportionments for summer school programs established pursuant to Chapter 498, Statutes of 1983 (SB 813), shall be no more than 136 hours per pupil times 5 percent of the district's total enrollment. The number of students actually enrolled in the summer school programs may exceed 5 percent of the district's total enrollment."

2. County Offices of Education (Item 6100-106-001)

The county offices of education provide services to school districts and administer educational programs. The state apportions funds to the counties for the following categories of activities:

- *"Direct" Services.* These services—health care, guidance, and supervision of instruction and pupil attendance—are provided to small districts, as defined by statute.
- *"Other Purpose" Services.* These services include audiovisual services, staff development, and curriculum development.
- *Business Services.* These services consist of payroll preparation,

expenditure audits, maintenance of financial records, budget approval, collection and disbursements of funds, centralized purchasing, and data processing.

- *Program Administration.* County programs include special education classes; Regional Occupational Programs (ROP); opportunity schools; juvenile hall schools; technical, agricultural, and natural resource conservation schools; pregnant minor programs; child development programs; and other special classes (county jails, handicapped adults).

Funding. The budget proposes to increase *total* revenue limit funds (state and local) for county offices from $158.2 million in 1983–84 to $167.3 million 1984–85, an increase of 5.8 percent. This increase reflects funding for enrollment growth plus a 3 percent cost-of-living adjustment (COLA). Of the total, $81.9 million would come from a General Fund appropriation, which is $364,000, or 0.4 percent, below estimated current-year expenditures. This funding level assumes that the Governor's proposal to redistribute local property tax revenues produced by the supplemental tax roll (described in our accompanying report, *The 1984–85 Budget: Perspectives and Issues*) will be enacted by the Legislature. Specifically, the budget assumes that county offices would receive an additional $4.6 million from this source, resulting in an equivalent reduction in General Fund requirements.

The proposed COLA (3 percent) is less than the statutory COLA for county offices of education (5.5 percent). In order to fund the statutory COLA, an augmentation to the budget of $4.1 million would be needed.

Unemployment Insurance Claims Administration

We recommend that the Legislature adopt Budget Bill language requiring county offices of education to revert to the School Employees Fund all unexpended balances of funds allocated for unemployment insurance claims administration, because these funds are not needed to provide the services for which they were apportioned.

County superintendents of schools are required to establish, coordinate, and maintain an unemployment insurance management system for school districts participating in the School Employees Fund. This pooled fund, administered by the Employment Development Department, is supported by district contributions for purposes of employee unemployment compensation. The Education Code authorizes an annual allocation from this fund of $2 per employee (less state administrative costs) to county superintendents for local administration of the system. This program was established in 1977–78.

Our review indicates that county offices of education may have accumulated potentially significant unexpended reserves for administration of this program. Furthermore, these balances could be reverted to the School Employees Fund without affecting the level of services provided. The Sacramento County Office of Education, for example, began 1983–84 with a balance of $77,684 carried over from the previous year. The county office estimated that it will receive an additional $30,000 from the annual apportionment during 1983–84, and it plans to spend $27,870 for administration of the program. Thus, the office projects an unexpended balance at the end of the year of $79,814.

We are unable to estimate the statewide level of unexpended balances for this program because county offices generally do not identify these funds in their budgets. Consequently, we recommend that the Legislature

DEPARTMENT OF EDUCATION—Continued

adopt the following Budget Bill language to require the county superintendents to certify the amount of such balances and to revert this amount to the School Employees Fund:

"Provided that each county superintendent of schools shall certify the amount of unexpended balances apportioned for unemployment insurance claims administration, as of June 30, 1983, and shall revert this amount to the School Employees Fund, pursuant to procedures promulgated by the State Department of Education."

In its annual report on the School Employees Fund, the Employment Development Department stated that "the current level of costs to the fund will require an increase in contribution rates charged to fund participants." Our recommendation, if adopted, will improve the financial condition of the School Employees Fund and thereby help to control future increases in contribution costs paid by school districts, county offices of education, and community college districts.

Equalization for Juvenile Hall Funding

We recommend that the Legislature adopt Budget Bill language to allocate inflation allowances for juvenile hall programs in such a way as to provide an equal dollar amount for each program, in order to move toward equalization of funding.

The state appropriates approximately $50 million annually to fund 43 county-operated juvenile hall programs. These programs are funded on the basis of separate revenue limits per ADA.

In our *Analysis of the 1983 Budget Bill,* we raised an issue regarding the equalization of juvenile hall funding. We pointed out that the revenue limits varied considerably among the individual programs, ranging from approximately $1,700 to $6,500 per ADA, and that this variation reflected historical expenditure patterns rather than objective measures of need. The Legislature, in response, adopted language in the Supplemental Report to the 1983 Budget Act which directed the Department of Education to submit a report recommending an equalization formula for the juvenile hall programs.

The department, in a report submitted in December 1983, recommends that:

- inflation allowances be allocated in such a way as to provide an equal dollar amount for each program, rather than an equal percentage increase, and
- revenue limits of all programs below the prior-year statewide average be raised to the statewide average ("leveling up").

We recommend that inflation allowances be allocated as equal dollar amounts per ADA. This would facilitate equalization at no additional cost to the state, and would not have a significant negative impact on any individual program. While it would reduce the disparity among the programs on a percentage, or proportional, basis, it would not close the gap on an absolute dollar basis.

The "leveling up" provision recommended by the department would accelerate the pace of equalization, but would cost an estimated $3.5 million in 1984–85. In recommending this approach, the department apparently assumes that high-expenditure programs are funded at an appropriate level and low-expenditure programs are underfunded. We have no analytical basis for confirming the validity of this assumption. Hence, we cannot recommend "leveling up" at this time.

Our recommendation to promote equalization of funding can be implemented by adopting the following Budget Bill language:

"Provided that the Department of Education shall apportion inflation allowances to juvenile hall programs on the basis of equal dollar amounts per ADA for each program."

3. Urban Impact Aid and Meade Aid (Items 6100-206-001 and 6100-207-001)

Urban Impact Aid and Meade Aid provide additional support to qualifying school districts to compensate for the higher costs believed to be associated with their urban setting. In 1983–84, 19 districts will receive Urban Impact Aid, while over 250 districts will receive Meade Aid. Fifteen districts will receive support from both programs.

Urban Impact Aid. The budget proposes that $72,543,000 from the General Fund be provided for Urban Impact Aid in 1984–85. This is an increase of $11,060,000, or 18 percent, over the current-year level. Of this amount, $9,216,000 is specifically allocated in the Budget Bill to expand the program for nonunified school districts (high school districts and their feeder elementary districts) called for by SB 813. The remaining $1,844,000 increase reflects a 3 percent cost-of-living adjustment.

Meade Aid. The budget also proposes $9,935,000 from the General Fund for Meade Aid in 1984–85. This is an increase of $289,000, or 3 percent, over the current-year amount. Table 15 shows the funding level for Urban Impact Aid and Meade Aid for the prior, current, and budget years.

Table 15
Urban Impact Aid and Meade Aid
General Fund
1982–83 through 1984–85
(in thousands)

	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Change*	
				Amount	*Percent*
Urban Impact Aid	$58,003	$61,483	$72,543	$11,060	18.0%
Meade Aid	9,100	9,646	9,935	289	3.0
Totals	$67,103	$71,129	$82,478	$11,349	16.0%

Allocation of Urban Impact Aid Expansion Funds

We recommend that the Legislature adopt Budget Bill language directing the Superintendent of Public Instruction to determine nonunified school districts' eligibility for, and allocation of, Urban Impact Aid based on (1) average daily attendance in 1983–84, (2) the number of AFDC children in the district in 1983–84, and (3) data from the most recent Racial and Ethnic Survey.

Prior to the enactment of SB 813, Urban Impact Aid was authorized only for qualifying unified school districts. These districts' eligibility for such aid was determined based on three factors: (1) 1975–76 average daily attendance (ADA), (2) 1975–76 data on the number of children in the district from famlies receiving Aid to Families with Dependent Children (AFDC), and (3) the results of the 1973 Racial and Ethnic Survey. Allocations to eligible districts are based on the first two factors only, and are increased annually by the amount of any cost-of-living adjustment (COLA) granted the Urban Impact Aid program. Allocations are not adjusted to reflect more recent data on ADA and AFDC counts.

DEPARTMENT OF EDUCATION—Continued

SB 813 Expansion. Senate Bill 813 (as amended by AB 70) provides that, if the Superintendent of Public Instruction detemines that funds have been specifically allocated for this purpose, eligibility for Urban Impact Aid shall be expanded to include nonunified school districts. Under these conditions, a high school district and its feeder elementary districts shall be considered a unified district for purposes of the program. The act does not, however, specify that more recent data on ADA and AFDC counts and racial/ethnic distributions are to be used in determining nonunified districts' eligibility for, and allocations of, Urban Impact Aid expansion funds. As a result, these funds will be allocated in 1984–85 based on conditions which prevailed in 1975–76.

Recommendation. We recommend that the most recent data available be used to determine eligibility for the $9,216,000 in Urban Impact Aid expansion funds. The current data would more accurately reflect the need for supplemental aid as measured by the criteria of the program—(1) the number of children from poor families, (2) student mobility, and (3) the percentage of Spanish-surname, Oriental-surname, and Indian children. If the 1975–76 data are used, some districts may qualify for Urban Impact Aid even though current conditions do not warrant the additional support, while other districts may be denied aid because the old data suggest that they have no impaction.

In sum, use of the most-current data to determine eligibility for the Urban Impact Aid expansion funds would target the support to districts that show the greatest *current* need.

Accordingly, we recommend the adoption of the following Budget Bill language in Item 6100-206-001:

> "Notwithstanding Section 54060 of the Education Code, the Superintendent of Public Instruction shall determine nonunified districts' eligibility for, and allocations of, funds appropriated by subschedule (b) of this item by applying the formulas specified in Section 54060 to (1) 1983–84 data on average daily attendance and AFDC counts and (2) the most recent Racial and Ethnic Survey."

B. SPECIALIZED EDUCATION PROGRAMS

Specialized education programs—sometimes referred to as "categorical programs"—are intended to address particular educational needs or to serve specific groups of students. Funding provided for these programs may be used only for the purposes specified in law, and may not be used to support a district's general education program. For purposes of our analysis, we group specialized education programs into six categories: (1) programs to improve classroom instruction, (2) programs to strengthen teaching and administration, (3) Special Education, (4) vocational education programs, (5) compensatory education programs, and (6) other specialized education programs.

1. Programs to Improve Classroom Instruction

Table 16 summarizes local assistance funding from the General Fund for the ten programs designed to improve classroom instruction. Funding for these programs will be discussed in the individual program analyses presented in this section.

Table 16
General Fund Support for Programs to Improve Classroom Instruction
Local Assistance
1982–83 through 1984–85
(in thousands)

	1982–83 Actual	*1983–84 Estimated*	*1984–85 Proposed*	*Change Amount*	*Change Percent*
School Improvement Program	$162,691	$172,457	$187,931	$15,474	9.0%
Classroom Teacher Instructional Improvement Program	—	—	17,100	17,100	N/A
Educational Improvement Incentive Program	—	—	15,000	15,000	N/A
Educational Technology Program	—	1,987	6,450	4,463	224.6
Institute for Computer Technology	100	250	257	7	3.0
Specialized Secondary Schools	—	—	2,000	2,000	N/A
Opportunity Classes	—	—	4,126	4,126	N/A
Instructional Materials	40,912	77,560	79,106	1,546	2.0
Demonstration Programs	3,667	3,772	3,884	112	3.0
High School Counseling	—	6,168	6,600	432	7.0
Totals	$207,370	$262,194	$322,454	$60,260	23.0%

a. School Improvement Program (Item 6100-116-001)

The School Improvement Program (SIP) provides funding to schools for expenditure based on decisions made by local School Site Councils. The program was initiated in 1977–78 as a replacement for the Early Childhood Education (ECE) program. Currently, SIP serves 1,364,000 ADA in 3,393 schools (869 districts). This is 32 percent of total K–12 ADA, 53 percent of the schools in the state, and 84 percent of the districts. About 68 percent of statewide K–3 ADA participates in SIP, while 22 percent of grades 4–6 ADA and 21 percent of grades 7–12 ADA are in the program.

Schools are selected for participation in the School Improvement Program on the basis of applications submitted to the State Board of Education. In their initial year of program participation, schools receive planning grants at the statutory rate of $30 per ADA. Implementation grants are $148 per ADA for grades K–3, $90 per ADA for grades 4–8, and $65 per ADA for grades 9–12. There is no statutory limit on the number of years a school may participate in SIP, but there is provision for the termination of grants upon a finding by the local governing board that a school's program has failed, over a four-year period, to substantially meet its declared objectives. To date, no program has been terminated under this provision.

SIP grants are used for a variety of activities and purposes, such as to employ teacher aides (a prevalent use of funds at the elementary school level) or for staff and curriculum development. Funds may not be used to reduce class size (that is, to employ regular classroom teachers) or for capital outlay.

Funding

We recommend approval.

The budget proposes $188 million for the School Improvement Program in 1984–85, an increase of $15.5 million, or 9.0 percent, over estimated expenditures in the current year. This increase consists of (1) $5.2 million for a 3 percent COLA and (2) $10.3 million to expand and equalize the funding for SIP, pursuant to the provisions of SB 813. Table 16 shows funding for the School Improvement Program in the prior, current, and budget years.

Senate Bill 813, as amended by Ch 1302/83 (AB 70), declares the Legisla-

DEPARTMENT OF EDUCATION—Continued

ture's intent that SIP funding eventually be equalized to provide all participating districts implementation grants of $106 per pupil in grades K–6, adjusted in 1985–86 and annually thereafter for inflation. To achieve this, the act provides that, beginning in 1984–85, COLA and expansion funds appropriated for SIP shall be allocated only to school districts that receive less than the $106 benchmark (as adjusted) times 80 percent of the district's K–6 enrollment.

The legislation contained an appropriation of $10.3 million for SIP expansion and equalization in 1984–85, but the Governor vetoed these funds. As noted, the budget proposes $10.3 million for this purpose.

School Improvement Program Evaluation

An abstract and summary of findings of the SIP evaluation required by Ch 894/77 was submitted in November 1983. The evaluators found that, on balance, SIP has been successful, but has not been effective "in all places at all times." Specifically, SIP elementary schools were more likely to improve than SIP secondary schools, and the evaluation concluded that SIP is more adaptable to the context of elementary schools.

The findings regarding the differences between elementary and secondary schools may have been due to the expectation that SIP should lead to improvement on a *schoolwide* basis. In contrast to elementary schools, secondary schools are organized into relatively autonomous departments, and SIP funds frequently are focused on specific curricula within these departments. In such cases, improvement on a schoolwide level might not be evident, even though the program has had a positive impact in selected departments. The total impact on school improvement, however, may be no less significant than if the funds were used to achieve cross-cutting schoolwide objectives.

The summary report contained no recommendations; however, the evaluators have informed us that a final report, with recommendations, will be submitted by February 1984.

b. Classroom Teacher Instructional Improvement Program (Item 6100-191-001(f))

We recommend approval.

Senate Bill 813 (Ch 498/83) establishes the Classroom Teacher Instructional Improvement Program, to take effect July 1, 1984. Under this program, the Superintendent of Public Instruction will award each applicant school district funds equal to $2,000 times 5 percent of the number of full-time teachers in the district, excluding teachers in adult education, child care, and regional occupational programs. These teachers may, in turn, apply for grants of up to $2,000 per teacher to improve the quality of classroom instruction. The grants are to be awarded by district governing boards, based on (1) an allocation plan and (2) recommendations made by each district's instructional improvement grant committee. The law requires that a majority of each grant committee consist of teachers.

The district may also request reimbursement for administrative costs in an amount not to exceed 5 percent of its entitlement for funds.

Funding

Senate Bill 813 contained an appropriation of approximately $18.5 million for the instructional improvement program in 1984–85, but the Governor vetoed these funds. The budget for 1984–85 proposes $17.1 million for the program, which is the estimated amount necessary to fund the statutory entitlement in the budget year.

Because the budget proposal is consistent with the Legislature's intent, expressed in SB 813, that the program be funded according to the statutory entitlement, we recommend approval of the amount requested. We will monitor the implementation of the program to determine the extent to which these funds are expended in a cost-effective manner.

c. Education Improvement Incentive Program (Item 6100-107-001)

The Education Improvement Incentive Program (EIIP), created by SB 813, is designed to test the effectiveness of fiscal incentives in improving the academic performance of schools. Beginning in 1984–85, the program provides incentive funds of up to $400 per pupil to participating schools which demonstrate an improvement over their prior year's scores on the 12th grade administration of the California Assessment Program (CAP) test. The amount of funds received by each school is based on its students' proportional contribution to the statewide increase in CAP test scores, according to a formula specified in the act.

The Education Improvement Incentive Program in SB 813 is based on a similar program proposed in SB 1086, under which all high schools statewide would have competed for an appropriation of $50 million in incentive funds. The Legislature approved SB 1086, but this measure was vetoed by the Governor. Senate Bill 813 appropriated $7.2 million to implement the EIIP on a pilot basis in 1984–85. While the Governor vetoed these funds from SB 813, he proposes $15 million for an EIIP pilot program in his budget for 1984–85.

In comparison to statewide implementation of the EIIP, the pilot study approach has two advantages. First, of course, is the significant savings to the state. Second, and more importantly, because implementation on a pilot basis allows comparisons between participating and nonparticipating ("control group") high schools, it permits the improvements in student achievement which are attributable solely to the program to be better identified. (If the program were implemented on a statewide basis in 1984–85 and average 12th grade CAP test scores increased, it would not be clear how much of the increase was due to the EIIP and how much was due to other factors such as the significant funding increases and reforms provided by SB 813.) For these reasons, we find merit in the pilot study approach.

Our analysis of the Education Improvement Incentive Program, however, raises two concerns. First, the level of funding proposed for the program in the budget exceeds the reasonable requirements of a pilot study. Second, the reward structure of the EIIP fails to provide a clear indication of the amount of incentive payments which a school may expect to receive for a given increase in academic performance. Consequently, it will be very difficult to use the results of the pilot study—as proposed in SB 813—to evaluate the program's effectiveness and to determine an appropriate funding level for the program in future years.

DEPARTMENT OF EDUCATION—Continued

Proposed Funding Exceeds Pilot Study Requirements

We recommend that the funding level for the Education Improvement Incentive Program be reduced by $7.8 million, for an equivalent General Fund savings, because the amount proposed in the budget exceeds the reasonable requirements of a pilot study. (Reduce Item 6100-107-001 by $7,800,000.)

Senate Bill 813 does not specify the size of the sample of schools to be used in the pilot implementation of the EIIP. As discussed previously in our overview of SB 813, however, the State Department of Education (SDE) proposes to select a sample such that the amount of incentive funds received by each eligible school would approximate the amount it would receive in a statewide, $50 million program. Thus, if the Legislature were to appropriate $15 million for the EIIP, as proposed in the budget, SDE would select a sample containing 30 percent (15/50) of California high schools. This would result in a sample of approximately 250 schools. With an appropriation of $7.2 million, as originally provided by SB 813, SDE would select a sample of about half this size—or approximately 125 schools.

Because of random variations in test scores, it is not possible to use the results of a sample study to predict precisely the effects of statewide implementation of the EIIP. Statistical analysis, however, may be used to establish a range of likely effects within a specified probability of occurrence. For example, such an analysis might indicate that there is a 95 percent probability that average 12th grade CAP test scores would increase by 1.0 to 3.0 points if the program were implemented statewide. This 2 point range in the program's likely effects is referred to as a "95 percent confidence interval."

Increasing the size of the sample reduces—but cannot eliminate—the size of the confidence interval. These two parameters are related through a well-established formula of basic statistics. Based on this formula, it may be shown that doubling the sample size (as proposed by the Governor) would result in a 30 percent reduction in the size of the confidence interval. Thus, if the results obtained from a sample of 125 high schools yielded a 95 percent confidence interval of 2 points (as in the example above), a sample of 250 schools would reduce this interval to approximately 1.4 points.

Our review indicates that a sample of 125 schools, as provided by the original appropriation in SB 813, would be entirely adequate to test the validity of the performance incentive concept. Because doubling the sample size to 250 schools would yield only slightly more reliable estimates of the program's impact, we recommend that the Legislature defer any increase in funding for the program beyond what was contemplated by SB 813 until the program's effectiveness has been established. Accordingly, we recommend that the additional $7.8 million proposed for this program in the budget be deleted.

Relationship Between Performance and Reward Unclear

We recommend that the Legislature adopt Budget Bill language directing the State Department of Education to (1) develop a schedule of incentive payments showing the amount of funding per pupil to which a school shall be entitled for given increases in its students' 12th grade CAP test scores and (2) distribute this schedule, prior to September 1, 1984, to schools chosen to participate in the pilot implementation of the Education Improvement Incentive Program.

In last year's *Analysis,* we identified several standards which should be met by any performance bonus plan adopted by the Legislature. One of these was that, in order to provide school administrators a clear picture of the financial payoff for success, all schools which achieve a specified performance level should be rewarded with the same, predetermined funding amount.

The reward mechanism etablished under the Education Improvement Incentive Program does not meet this standard. As described in our overview of SB 813, the amount of funding which a school receives depends not only on that school's academic performance, but also on the performance of all other schools competing for incentive funds. Thus, for example, a school could receive $200 per pupil for increasing its students' average test scores by 5 points in one year and only $100 per pupil for achieving the same increase in the following year—even though the total amount of funding for the program remained the same.

Under these conditions, it is unclear how school administrators will evaluate the potential financial payoffs associated with a given increase in achievement. Moreover, because the amount of incentive funds which a school may expect to receive for a given increase in achievement bears no necessary relationship to the level of funding provided for the program in total, the results obtained from a pilot study would be of little use in determining an appropriate level of funding for a statewide program.

An alternative design may, however, be specified which would avoid these problems. Under this alternative, participating schools would be guaranteed specified amounts of incentive funds (to a maximum of $400 per pupil) for specified increases in student achievement. Using information on the distribution of recent CAP test scores and assumptions regarding the likely increases in such scores, the State Department of Education could develop a schedule of payments designed to use no more than the amount appropriated for the pilot study.

The main drawback of this approach, of course, is that it creates an open-ended entitlement with a risk that the available funds will be oversubscribed. Were this to occur, however, the Legislature would at least have a clear indication of the relationship between the level of reward offered and the resulting increase in academic performance. Moreover, the extent of the state's risk would be limited by testing the response to the incentives in the context of a pilot study.

For these reasons, we believe that the advantages of the alternative design exceed its disadvantages. Accordingly, we recommend adoption of the following Budget Bill language in Item 6100-107-001 to provide for this approach:

> "The State Department of Education shall develop a schedule for allocating to participating schools the funding for incentive payments provided by this Item. This schedule, which shall be distributed to participating schools prior to September 1, 1984, shall indicate the amount of funding per pupil (to a maximum of $400 per pupil) to which each school shall be entitled, for specified increases in the composite ratings computed pursuant to Section 54651 of the Education Code. Notwithstanding Section 54653 of the Education Code, the amount of incentive funds earned by schools pursuant to the schedule shall form the basis for the allocation of incentive payments pursuant to Section 54654 of the Education Code."

DEPARTMENT OF EDUCATION—Continued

d. Educational Technology Program (Item 6100-181-001)

The Educational Technology program provides support for computer and other technology education, and instructional telecommunications services for schools. Grants are awarded to local education agencies to assist in the development of educational technology programs.

Chapter 1133/83 (AB 803) revised the Educational Technology program. Specifically, the act:

- specified the eligible agencies and eligible purposes for grants awarded under the program,
- established a state/local matching ratio of 10:1 for the grants,
- specified a limit of $1,000 per grant for teachers' exemplary projects, and
- expanded the duties of the Superintendent of Public Instruction.

Funding

In the current year, $2.9 million is available for the Educational Technology program through (1) the Budget Act of 1983, which appropriated $870,000 for local assistance and $603,000 for state operations, (2) SB 813, which appropriated an additional $52,000 for a COLA and $500,000 for program expansion, and (3) $854,000 carried over from prior-year unexpended balances. Of the amount appropriated by SB 813 for program expansion, $300,000 was allocated for state operations on a one-time basis, with the remainder allocated for local assistance. In total, state operations received $903,000 and local assistance received $2.0 million.

State Operations. The budget proposes $735,000 for state operations in 1984–85, consisting of $611,000 in federal funds and $124,000 from the General Fund. This is a net decrease of $168,000 (19 percent) from estimated current-year state operations expenditures, which reflects elimination of the $300,000 one-time SB 813 appropriation and an increase of $124,000 to fund 3 new positions. Our analysis indicates that the new positions are justified by workload increases required by AB 803.

Local Assistance. The budget proposes $6.5 million for local assistance in the Educational Technology program in 1984–85. This is an increase of $4.5 million, or 225 percent, over estimated current-year expenditures.

The department indicates that the proposed augmentation would be used to award grants in the educational technology local assistance program, pursuant to the provisions of AB 803. Under this legislation, school districts, county offices of education, and public postsecondary education institutions are eligible for grants. School districts may use the grants for: applications of educational technology in school programs; any use of computers in the district's instructional programs; and specified reading, math, and science projects.

Grants will be awarded by the State Board of Education, based on a review of applications and recommendations by the Educational Technology Committee (a statutory committee established to advise the state board). Consequently, there is no expenditure plan for the allocation of the funds proposed in the budget. The department indicates, however, that most of the grants probably would be allocated for the purchase of computer hardware and software to assist school districts in implementing computer education programs or computer-assisted instruction. The

Legislature, in AB 803, indicated that this is an appropriate use of funds allocated for the Educational Technology program. The principal issue, then, is to what extent the state should support school districts in this endeavor.

We have no analytical basis for assessing the cost-effectiveness of incorporating computer education into the school curriculum. Consequently, we cannot recommend a specific level of funding for the Educational Technology program. Ultimately, the amount appropriated for this purpose depends on legislative priorities. We will, however, review the use of any funds appropriated for the Educational Technology program in order to determine the extent to which the grants are expended in a manner consistent with the intent of AB 803.

e. Institute for Computer Technology (ICT) (Item 6100-181-001)

The Institute for Computer Technology (ICT) was established in 1982 by three school districts in Santa Clara County—Sunnyvale Elementary, Fremont Union High School, and Los Gatos Joint Union High School—to provide education and training in computer technology for pupils in grades K—12 and adults. Chapter 1528/82 (AB 3266) reappropriated up to $100,000 from the exemplary projects component of the Investment in People program (Budget Act of 1982) to support the institute in 1982–83, to be allocated on the basis of the average revenue limit per ADA ($2,057) of the three participating districts. Chapter 1528 also provided that support for the institute in 1983–84 and annually thereafter shall be made from the appropriation for Regional Occupational Centers and Programs (ROC/Ps), for a maximum of 500 ADA.

In the Budget Act of 1983, the Legislature appropriated $150,000 for support of the ICT in 1983–84, in lieu of the amount authorized by Chapter 1528. The Governor vetoed these funds, but Chapter 1302/1983 (AB 70) subsequently appropriated up to $250,000 for the institute in 1983–84.

The budget proposes $257,000 for the ICT in 1984–85, an increase of 3.0 percent (COLA) over the current year. These funds are included in the proposed appropriation for the Educational Technology program. The Budget Bill, however, contains control language which would limit funding for the ICT to $250,000. The Department of Finance indicates that this is a technical error which will be corrected by amendment.

Proposed Trailer Bill Language

The administration also proposes trailer bill language to eliminate the statutory requirement that up to 500 ADA in the institute be funded from the Budget Act appropriation for ROC/Ps. This proposal is based on the recognition that the ICT does not operate as an ROC/P and is eligible to compete for additional funding through the educational technology local assistance program. We believe this proposal makes sense. It would still allow ICTs to be funded by annual Budget Act appropriations, as most other programs are.

Plan for Reallocation of ICT Funds in 1985–86

We recommend that legislation be enacted to clarify that Regional Occupational Centers and Programs (ROC/Ps) and Adult Schools may contract with ICTs to operate classes, and that school districts may claim ADA credit for enrollment in ICT classes, in order to make additional sources of funding available to ICTs.

We further recommend that the Legislature adopt supplemental report

DEPARTMENT OF EDUCATION—Continued

language expressing legislative intent that no state funding be provided for the existing Institute for Computer Technology (ICT) in 1985–86, and that state or federal funding be provided in 1985–86 to establish at least one new ICT, in order to facilitate expansion of the ICT concept to other areas of the state.

Based on our review of the Institute for Computer Technology and computer education programs in other districts, we find that:

- The ICT has implemented a multi-district program that provides courses in computer programming, instruction based on selected computer software packages, and computer occupational skills.
- The institute has been successful in attracting contributions from the private sector.
- ICT courses for high school and adult pupils are primarily job-oriented. Comparable courses could be offered by the local Regional Occupational Centers and Programs (ROC/Ps), Adult Schools, and community college.
- Other school districts have developed computer education programs without state categorical funds, but these programs generally are not as comprehensive as the one offered by the ICT.

These findings suggest to us that the ICT model can facilitate inter-district cooperation, thereby permitting districts to realize economies of scale. They also suggest that state support may be necessary to assist districts in financing start-up costs and in attracting contributions from the private sector. *Ongoing* state categorical support, however, may not be necessary, because alternative sources of funds are available (ROC/Ps, adult schools, and school district revenue limits), and may not be feasible if the program is to be expanded statewide, due to limited state resources.

In order to facilitate expansion of the program and to encourage districts to form cooperative relationships in implementing computer education programs, we recommend that the Legislature:

- continue support for the existing ICT in 1984–85,
- adopt supplemental report language expressing legislative intent that: state funding for the existing ICT not be continued beyond 1984–85, and state or federal funding be provided in 1985–86 to establish at least one new ICT, to be funded annually for a two-year period, with second-year funding contingent upon the provision of local matching funds from non-state sources, and
- enact legislation to permit ROC/Ps and adult schools to contract with ICTs to operate courses, and to allow school districts to claim ADA credit for ICT classes on the same basis as other elementary and secondary school classes. (It is not clear whether this is permitted under current law.)

This proposal, if adopted, should provide (1) the existing ICT with an opportunity to arrange for new funding, once state categorical support is terminated, (2) funding for the systematic expansion of ICTs to additional areas in the state, and (3) an incentive for ICTs to obtain support from the private sector.

Accordingly, we recommend that the Legislature adopt the following supplemental report language:

"It is the intent of the Legislature that no state funds be appropriated in 1985–86 directly for support of the existing Institute for Computer

Technology. It is further the intent of the Legislature that the Budget Act of 1985 appropriate state or federal funds to establish a new Institute for Computer Technology, to be funded annually for a two-year period, with second-year funding contingent upon the provision of local matching funds from non-state sources."

f. Specialized Secondary Programs (Item 6100-119-001(c))

Senate Bill 813 (Ch 498/83) authorizes school districts to apply to the Superintendent of Public Instruction to establish high schools (grades 9–12) with specialized curricula in high technology, performing arts, or "other special curricular areas," and requires the superintendent to allocate funds for start-up costs of specialized schools, beginning in 1984–85. The act contained an appropriation of approximately $2 million for this purpose, but the Governor vetoed these funds. The budget for 1984–85 proposes $2.0 million for the program.

Programs Should be Established and Evaluated as Pilot Projects

We recommend that the Legislature adopt supplemental report language expressing its intent that (1) specialized secondary programs be funded annually for three years as pilot projects, (2) an evaluation of the program be initiated in 1985–86, and (3) continuation of funding for the program beyond 1986–87 be contingent upon the results of the evaluation establishing the program's success.

Senate Bill 813 indicates that the Legislature intends to appropriate start-up costs for new specialized secondary programs on an annual basis. As discussed in the overview of SB 813, however, we believe that before proceeding with the implementation of such programs on a large scale, it would be prudent to evaluate the results from a more limited test of the concept. Consequently, we recommend that the Legislature adopt supplemental report language expressing its intent that (1) specialized secondary programs be funded as pilot projects for three years, (2) an evaluation of the program be initiated in 1985–86, and (3) continuation of funding for the program beyond 1986–87 be dependent upon findings from the evaluation showing the program's success. This evaluation should include a review of specialized secondary programs established in other states, so that California may benefit from the experience of these states.

Our recommendation can be implemented by adopting the following supplemental report language:

"It is the intent of the Legislature that (1) specialized secondary programs be funded annually for three years as pilot projects, (2) an evaluation of the programs be initiated in 1985–86, to be completed by October 1, 1986, and (3) continuation of funding for the programs beyond 1986–87 be contingent upon a finding that these programs are successful."

We estimate that the cost of the evaluation would range from $100,000 to $200,000. This could be supported by new funding in 1985–86, or from baseline funding of the specialized secondary programs.

g. Opportunity Classes (Item 6100-119-001(b))

Senate Bill 813 provides fiscal incentives for school districts to increase the availability of "opportunity classes and programs" in grades 7 to 9. The purpose of these classes, which were authorized by law prior to SB 813, is to provide pupils who are identified as potential truants or disciplinary problems "an opportunity . . . to resolve their problems," so that they

DEPARTMENT OF EDUCATION—Continued

may return to regular classroom instruction.

As discussed in the overview of SB 813, the act provides that school districts maintaining opportunity classes shall be eligible to receive reimbursements for costs associated with increasing the availability of such classes in grades 7 to 9, "which are in excess of the reimbursements provided in the regular apportionment." The amount of reimbursements received by a district may not, however, exceed $400 per pupil for each additional pupil enrolled in opportunity classes above the 1982–83 enrollment level in these grades. Senate Bill 813 appropriated approximately $4.1 million in 1984–85 for this program. This funding was vetoed by the Governor. The budget proposes $4,126,000 to support this program in the budget year.

Based on our analysis of SB 813's provisions regarding the expansion of opportunity classes and programs, we see two potential problems that the program may encounter. First, because the statutory criteria under which students may be placed in opportunity classes are vague, there is a potential for abuse of the fiscal incentives created by the act. Second, by establishing the limitation on a district's incentive funds in terms of enrollment ($400 per additional pupil), the act fails to relate the maximum reimbursement to the amount of additional workload which would be imposed by expansion of opportunity classes.

Placement Criteria are Vague

At the time this *Analysis* was written, the Department of Education had not developed any guidelines or procedures to govern the proposed expansion of opportunity classes and programs. Under existing law, school districts may place in opportunity classes students who are—or "are in danger of becoming"—habitually truant; irregular in attendance; or insubordinate or disorderly. Because the phrase "in danger of becoming" is not defined elsewhere in the law, the criteria used by school district administrators in determining which pupils are to be placed in opportunity classes may vary significantly from district to district. The Legislature may, therefore, wish to specify more clearly the conditions under which districts may assign additional students to opportunity classes.

Maximum Reimbursement Not Tied to Workload

We recommend that the Legislature adopt budget bill language requiring that funding for the expansion of opportunity classes be based upon units of average daily attendance (ADA), rather than on enrollment.

As noted above, SB 813 bases the maximum amount of reimbursements which a school district may receive for the expansion of its opportunity classes on the number of pupils *enrolled*. By expressing the limitation in this manner, however, SB 813 fails to relate the maximum reimbursement to the amount of additional workload which would be imposed by the expansion of opportunity classes. Because the purpose of such classes is to return the student to a regular classroom as quickly as possible, opportunity class enrollments typically reflect substantial "turnover" of individual students. As a consequence, the number of students enrolled at one time or another throughout the year fails to describe accurately the additional workload which these students impose on the district.

Our analysis indicates that a limitation on reimbursements based on average daily attendance (ADA), rather than on headcount enrollment, would more accurately reflect the workload imposed by the expansion of opportunity classes. Moreover, such a change would be consistent with the provision of SB 813 requiring districts to justify their excess costs in relation to the reimbursements provided (on a per-ADA basis) in the regular apportionment. Accordingly, we recommend that the Legislature adopt the following budget bill language:

"Notwithstanding Section 48644 of the Education Code, funds allocated to school districts for the expansion of opportunity classes and programs shall not exceed $400 per unit of average daily attendance (ADA), based on the additional enrollment in such classes and programs above the 1982–83 enrollment levels, expressed in terms of ADA."

h. Instructional Materials (Textbooks) (Items 6100-186-001, 6100-187-001, and 6100-015-001)

Article IX, Section 7.5 of the California Constitution requires the state to adopt textbooks for use in grades K–8 and supply them to the schools without charge. To meet this mandate, the Department of Education oversees a 25-month textbook adoption and distribution process.

The state provides categorical support to school districts for the purchase of instructional materials. The statutory rate of funding for grades K–8 is $21.18 per ADA in 1983–84, and this rate is to be adjusted annually for inflation. Senate Bill 813 (Ch 498/83) provided, for the first time, an annual apportionment for the purchase of instructional materials in grades 9–12, at a rate of $14.41 per pupil.

Funding for Instructional Materials. Table 17 summarizes the funding for instructional materials in the prior, current, and budget years.

Table 17

Funding for Instructional Materials
1982–83 through 1984–85
(in thousands)

	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Change Amount*	*Change Percent*
State Operations					
General Fund	$878	$1,422	$1,486	$64	4.5%
Reimbursements/Special Deposit Fund	72	138	140	2	1.4
Subtotals	$950	$1,560	$1,626	$66	4.2%
Local Assistance					
General Fund (grades K–8)	$40,912	$59,310	$60,736	$1,426	2.4%
General Fund (grades 9–12)	—	18,250	18,370	120	0.7
Federal funds	—	75	75	—	—
Instructional Material Fund	701	—	—	—	—
Subtotals	$41,613	$77,635	$79,181	$1,546	2.0%
Totals	$42,563	$79,195	$80,807	$1,612	2.0%

Table 17 shows that the budget proposes $1.6 million for state operations and $79.2 million for local assistance, for a total of $80.8 million in support of the instructional materials program.

The Legislature, in providing an appropriation for instructional materials in grades 9–12 and funding the statutory entitlement for grades K–8 in 1983–84, increased the level of state funding for this program by 91 percent over baseline expenditures in 1982–83. The Governor's Budget proposes $79.1 million from the General Fund for local assistance for instructional

DEPARTMENT OF EDUCATION—Continued

materials in 1984–85, an increase of 2.0 percent over estimated current year-expenditures. This increase is due to (1) a reduction in the estimated amount required to fund the statutory entitlement (technical adjustments), and (2) a 3 percent COLA.

The budget also proposes $1.5 million from the General Fund for state operations under the instructional materials program. This is an increase of 4.5 percent over the current year.

Appropriation for Grades 9–12 Lacks Statutory COLA Provision

Current law provides that the appropriation for instructional materials in grades K–8 shall be adjusted annually for inflation, as measured by changes in the U.S. Consumer Price Index. No statutory inflation adjustment, however, is required for the appropriation in support of grades 9–12. The budget proposes a 3 percent COLA for both appropriations ($2.3 million).

We find no analytical basis for differentiating between the two instructional materials appropriations with respect to inflation adjustments. Either they both warrant a mandatory adjustment or they do not. Consequently, we agree with the budget proposal to grant the same COLA to both appropriations. If the Legislature decides to fund the statutory COLA for the K–8 appropriation (3.3 percent), we believe the same percentage increase should be applied to the appropriation for grades 9–12.

In order to fund the statutory COLA for the K–8 appropriation, a budget augmentation of $177,000 would be required. Providing the same rate of increase for the grade 9–12 appropriation would require an augmentation of $54,000.

Appropriation for Grades K–8 is Overbudgeted

We recommend that the appropriation for instructional materials in grades K–8 be reduced by $685,000, for an equivalent General Fund savings, because the budget does not account for projected current-year unexpended balances in the Instructional Materials Fund that will be available for expenditure in 1984–85. (Reduce Item 6100-186-001 by $685,000.)

Senate Bill 813 provides that districts are entitled to funds for the purchase of instructional materials in 1983–84 at the rates of $21.18 per prior-year ADA in grades K–8 and $14.41 per pupil enrolled in the prior year in grades 9–12. The Budget Act of 1983 and SB 813 appropriated a total of $77.6 million for this purpose. Of this amount, the department has estimated that $18.2 million will be required to fund grades 9–12 and the remaining $59.4 million will be designated for grades K–8. The budget proposal assumes there will be no carryover balances.

Based on the department's reported ADA for 1982–83, however, we estimate that only $58.7 million will be required to fund the statutory entitlement for grades K–8, leaving a projected balance of $685,000 at the end of the current year. Because current-year unexpended balances in the Instructional Materials Fund will be carried over to 1984–85, they will be available for allocation in the budget year.

Consequently, we believe the proposed appropriation is $685,000 in excess of the amount required to provide $21.18 per prior-year ADA plus the 3 percent COLA assumed in the budget. We therefore recommend that the appropriation be reduced by this amount.

Statutory Allowance for Instructional Materials Underfunded in Budget

We recommend that the Department of Finance report, at the time of budget hearings, an apparent $396,000 underfunding in the proposed budget appropriation for instructional materials in secondary schools.

The proposed appropriation for instructional materials in secondary schools is based on the statutory rate of $14.41 per pupil enrolled in grades 9 through 12 in the prior fiscal year. The 1984–85 proposed budget is based on an estimate of 1983–84 enrollment provided by the Department of Finance. This estimate, however, excludes "ungraded enrollment" (high school pupils who are not assigned to a specific grade level). We see no basis for excluding this enrollment from textbook funding.

If adjusted for ungraded enrollment, the appropriation for instructional materials in secondary schools would have to be augmented by $396,000, assuming a 3 percent COLA. The subcommittees should request that the Department of Finance explain why funds for "ungraded enrollment" were omitted from the request for instructional materials. If this was done inadvertently, the department should request an amendment to the Budget Bill providing the funds.

New Procedures Needed for Ordering Textbooks

We recommend that, in order to make the two systems of ordering textbooks comparable, the Legislature adopt Budget Bill language providing that (1) all funds appropriated for instructional materials be allocated directly to local education agencies, prior to September 15, 1984, and (2) districts ordering textbooks through the state be required to reimburse the state for administrative costs incurred, for a General Fund savings of $418,000. (Reduce Item 6100-001-001 by $418,000.)

We further recommend that the appropriation for instructional materials in grades K–8 be reduced by $4,200,000 in order to compensate for estimated loss in General Fund interest income to the state and recognize the corresponding gain to school districts, resulting from (1) above. (Reduce Item 6100-186-001 by $4,078,000, and reduce Item 6100-226-001 by $122,000.)

Prior to 1983–84, up to 20 percent of the state appropriation for K–8 instructional materials was available to school districts for cash purchases directly from publishers; the remainder was allocated to district accounts as credits in the state Instructional Materials Fund. In order to use these credits, districts were required to place orders for instructional materials through the State Department of Education. Chapter 1503, Statutes of 1982, permits school districts to order *all* K–8 instructional materials directly from publishers, rather than through the state. Language in the *Supplemental Report to the Budget Act of 1983* requires the Legislative Analyst to report in the 1984–85 *Analysis* on the implementation of Ch 1503.

Report on Direct Ordering of Textbooks

Of the 988 districts that order K–8 instructional materials, 249, or 25 percent, chose the direct order option in 1983–84. These districts represented 51 percent of K–8 enrollment, reflecting the fact that the larger districts tended to prefer to order directly from the publishers.

Early in 1983–84, the State Department of Education conducted a survey of 30 districts to determine why they chose the direct order or the state order system. The survey indicates:

DEPARTMENT OF EDUCATION—Continued

- Those districts which chose to order directly from publishers did so primarily because (1) under this system, the district receives its entire allocation in cash, rather than in credits, thereby permitting the district to earn interest on unexpended balances and (2) direct order could result in faster delivery (particularly for supplemental orders).
- Those districts which chose to order through the department did so primarily because (1) it reduces local administrative costs and (2) payments made to districts for direct order, apportioned monthly, were perceived to be too small and allocated too late for the districts to use effectively, whereas credits in the state order system were available at the beginning of the year.

During our field visits, district administrators offered a variety of reasons for choosing the direct or state order option. In general, however, our findings are consistent with the department's survey.

Comments and Recommendations

Ideally, allowing districts to choose between the state and direct order options would permit a comparison of the benefits of a centralized versus a decentralized system of procurement. The manner in which the direct order option has been implemented, however, has certain fiscal consequences which prohibit a fair comparison. Specifically, the implementation of the two systems differs in that:

- state ordering gives districts the advantage of receiving their total entitlement at the beginning of the fiscal year;
- direct ordering gives districts the advantage of earning interest on unexpended balances; and
- state ordering gives districts the advantage of having the state pay for the administrative costs of processing the orders.

In each case, the impact is a result of the way in which the system is implemented rather than the result of the system itself. In other words, the state-ordering system could be implemented in a way that provided credits to districts on a monthly basis, while direct ordering could allow districts to draw down their entitlement all at once.

Interest and Schedule of Payments. In order to prevent interest earnings and the timing of the apportionments from affecting a district's choice regarding how to order textbooks, thereby facilitating evaluation of the two ordering options, we recommend that:

- *all* funds appropriated for instructional materials be allocated to districts as a cash payment, and
- all cash allocations be transferred to districts at the *beginning* of the fiscal year, thereby giving districts more flexibility in using these funds to order textbooks.

If these recommendations were approved, the result would be a significant revenue loss to the state. This is because, under existing law, interest earned on the unexpended balance of the state Instructional Materials Fund is credited to the General Fund. At the same time, however, school districts, would receive a windfall revenue gain as a result of the interest they would earn on the instructional materials funds apportioned to them at the beginning of the school year. In order to avoid what, in effect, would be a "hidden" increase in the program, we further recommend that the estimated amount of interest lost by the state and gained by the districts be deducted from the state appropriation for instructional materials.

Assuming a projected interest rate of 10 percent and an appropriation for instructional materials at the level proposed in the Governor's Budget, we estimate that this deduction should be $4.2 million.

Administrative Costs. As mentioned above, school districts that order textbooks directly from publishers must pay for the associated administrative costs from their local general funds. Districts that order through the State Department of Education, on the other hand, are provided this service at no cost to the district. This service is supported by the state General Fund. Like the other factors discussed above, this difference constitutes a fiscal incentive for districts to use one particular system of placing orders and thereby precludes an objective assessment of the relative merits of the two options. We therefore recommend that districts ordering through the Department of Education be required to reimburse the state for the costs of providing this service. We estimate that this would result in a General Fund savings of approximately $418,000. If implemented in 1983–84, this would have resulted in 739 districts reimbursing the state at a rate of $0.31 per ADA in grades K–8.

We recommend that the Legislature implement these recommendations by (1) adopting two Budget Bill provisions, as shown below, (2) reducing the General Fund appropriation for instructional materials by $4.2 million to compensate for the transfer of interest revenues from the state to local districts, and (3) reducing the General Fund appropriation for state operations by $418,000 and increasing reimbursements by a like amount to reflect the use of reimbursements as a funding source for state administrative costs:

"1. Provided that, notwithstanding any other provision of law, all funds appropriated for local assistance for instructional materials shall be allocated to local education agencies prior to September 15, 1984.

2. Provided that local education agencies ordering instructional materials pursuant to subdivision (a) of Education Code Section 60242 shall be required to reimburse the state for the administrative costs incurred in providing this service, as determined by the State Department of Education. The Department of Education shall, by January 1, 1985, reduce the number of authorized positions to the extent that projected reimbursements are less than the amount budgeted for this purpose, and shall certify this reduction to the Department of Finance."

Report on Textbook Reviews Needs Improvement

We recommend that the Legislature adopt supplemental report language directing the State Board of Education to (1) disseminate to school districts a copy of the Curriculum Commission's report on textbooks recommended for state adoption and (2) require the Curriculum Commission to include in its report a summary of negative recommendations made by Instructional Materials Evaluation Panels, in order to assist the state board and school districts in selecting instructional materials.

As part of the process of adopting textbooks for use in grades K–8, the Curriculum Development and Supplemental Materials Commission makes recommendations to the State Board of Education, based on reviews by Instructional Materials Evaluation Panels. In addition to recommendations, the commission's report includes a brief summary of the strengths of each textbook. The report, however, does not include a summary of negative comments made by reviewers, and makes no notation

DEPARTMENT OF EDUCATION—Continued

of instances where any of the review panels recommended against adoption.

We believe that the commission's report would, if disseminated to school districts, assist them in selecting textbooks. The report also would be more informative if it noted where a review panel dissented from the commission's decision or did not recommend specific sections of a textbook. Consequently, we recommend that the Legislature adopt the following supplemental report language:

> "The State Board of Education shall (1) disseminate to school districts (grades K–8) a copy of the Curriculum Commission's report on textbooks recommended for adoption and (2) require the commission to include in its report a summary of negative recommendations made by Instructional Materials Evaluation Panels."

Because the department currently sends to school districts the list of state-adopted instructional materials, we estimate that the additional cost incurred as a result of our proposal would be minor and could be accommodated within existing baseline resources.

Warehousing and Shipping Workload Data Needed (Item 6100-015-001)

We withhold recommendation on the appropriation for warehousing and shipping instructional materials, pending the receipt of additional information concerning workload.

The budget proposes a transfer of $253,000 from the Instructional Materials Fund to the General Fund for the warehousing and shipping of instructional materials. This function is performed primarily in connection with textbooks printed by the Office of State Printing and large print and braille textbooks. The budget proposal represents an increase of $15,000, or 6.3 percent, above the current-year funding level.

Funding for this purpose in 1984–85 is associated, in part, with textbooks ordered in the current year and the number of these books that will be printed by the state. The department indicates that this information will not be available until February. We will review the data upon submission by the department, and make a recommendation on the appropriate level of funding for this activity during the budget hearing.

i. Demonstration Programs in Reading and Mathematics (Item 6100-146-001)

We recommend approval.

Demonstration programs in reading and mathematics were established to provide cost-effective, exemplary reading and math programs in grades 7, 8, and 9, using intensive instruction. The enabling legislation for the demonstration programs specifies that the programs are to (1) develop new approaches to the teaching of reading and mathematics, (2) provide information about the successful aspects of the projects, and (3) encourage project replication in other schools.

The legislation further requires that the programs be ranked according to evaluation results, with state support withdrawn from the lowest-rated programs. In 1983–84, the program will serve 9,364 students in 28 schools representing 19 districts. The State Department of Education (SDE) uses one consultant and one half-time clerical position to administer this program.

Funding

The budget proposes an appropriation of $3,884,000 for the demonstration programs in 1984–85. This amount includes $3,772,000 to continue the level of funding provided in the current year, plus $112,000 for a 3 percent COLA. Because evaluations to date have shown this to be a successful program, we recommend approval of the amount as budgeted.

Sunset Review

Chapter 1270 of the Statutes of 1983 (SB 1155) provides that the statutory authorization for Demonstration Programs in Reading and Mathematics shall "sunset" on June 30, 1985. This measure also establishes a new review process for all categorical programs and, as part of this process, requires the SDE to submit a report to the Legislature, by December 1, 1983, on the effectiveness of the Demonstration Programs in Reading and Mathematics. The measure further requires the Legislative Analyst to review the report submitted by the department and, no later than 90 days following its receipt, submit comments and recommendations to the Legislature.

At the time this *Analysis* was prepared, we had not received the department's report on the demonstration programs. The department, however, intends to submit this report prior to budget hearings. Pursuant to the requirements of Ch 1270/83, we shall review the report and prepare comments and recommendations for the Legislature, as appropriate.

j. High School Pupil Counseling Program (Item 6100-109-001)

We recommend approval.

Senate Bill 813 (Ch 498/83) establishes a permissive program for counseling high school pupils. Under this program, each pupil shall receive, prior to age 16 or the end of the 10th grade (whichever occurs first), a review of his or her academic progress and counseling regarding educational and career options. Priority is to be given to pupils who are not earning credits at a rate which will enable them to graduate with their class. The act authorizes an allocation of $20 for each 10th grade pupil to school districts adopting the counseling program. These funds must be used to supplement, rather than supplant, existing funding for counseling services.

Funding

Senate Bill 813 included an appropriation of approximately $6.2 million per year for high school pupil counseling in both 1983–84 and 1984–85, but the Governor veteoed the second-year appropriation. The budget proposes $6.6 million for the program in 1984–85, in order to fund the authorized $20 per pupil. This is an increase of 7.0 percent over estimated expenditures in the current year. This level assumes that every high school in the state will receive funding.

As we indicated in the overview of SB 813, this program could provide an incentive for districts to enhance their counseling programs. The Department of Education intends to monitor and evaluate district programs on a sample basis. At this time, however, we have no analytical basis for determining the effectiveness of the high school pupil counseling program. Because the budget proposes to provide the legislatively-approved level of funding for this program, we recommend that it be approved.

DEPARTMENT OF EDUCATION—Continued

2. Programs to Strengthen Teaching and Administration

Table 18 shows the General Fund local assistance funding for the programs designed to strengthen teaching and administration in the prior, current, and budget years. Funding for these programs will be discussed in the individual program analyses presented in this section.

Table 18
General Fund Support for Programs to Strengthen Teaching and Administration
Local Assistance
1982–83 through 1984–85
(in thousands)

	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Change Amount*	*Change Percent*
Mentor Teacher Program	—	$10,805	$30,800	$19,995	185.1%
Teacher Education and Computer Centers	$6,303	6,681	11,982	5,301	79.3
Administrator Training and Evaluation Program	—	—	2,000	2,000	N/A
Pilot projects for administrators	—	—	500	500	N/A
School Personnel Staff Development Program	3,331	3,369	3,470	101	3.0
Bilingual Teacher Training Program	790	779	802	23	3.0
Instructional Development and Exemplary Projects	1,637	707	—	−707	−100.0
Totals	$11,961	$22,341	$49,554	$27,213	121.8%

a. California Mentor Teacher Program (Item 6100-191-001)

Senate Bill 813, as amended by AB 70, provides funds to school districts and county offices of education to implement the California Mentor Teacher Program. Under this program, each district or county office may designate as "mentor teachers" a number of eligible teachers equal to 5 percent of the district's certificated classroom teachers.

In order to be eligible to participate in this program, a teacher must:

- be a credentialed classroom teacher with permanent status,
- have substantial recent classroom instruction experience, and
- have demonstrated exemplary teaching ability, such as effective communication skills, subject matter knowledge, and mastery of a range of teaching strategies necessary to meet the needs of different pupils.

In return for performing additional duties, the mentor teacher receives a stipend of up to $4,000 annually. Specifically, the act provides that the primary function of a mentor teacher shall be to provide assistance and guidance to new teachers (including teacher trainees). The act further provides that mentor teachers may also:

- give assistance and guidance to more experienced teachers,
- provide staff development for teachers, and
- develop special curricula.

Finally, the act provides that mentor teachers must spend at least 60 percent of their time in the direct instruction of pupils, and shall not take part in the formal evaluation of other teachers.

School districts and county offices participating in the program are to be reimbursed for (1) the cost of providing stipends to their mentor teachers and (2) necessary costs to operate the program, such as the costs of substitute teachers and administrative costs.

Funding. Senate Bill 813 appropriated $10.8 million for 1983–84 (half-year cost) and $30.8 million for 1984–85 to implement the Mentor Teacher program, but the Governor vetoed the funding provided for 1984–85. The budget proposes $30.8 million in local assistance funding for this program in 1984–85. This amount is composed of $10.8 million to continue the level of funding established in 1983–84 plus $20 million for expansion of the program in the budget year.

The State Department of Education estimates that the budget proposal provides sufficient funding to support a number of mentor teachers equal to roughly 2.8 percent of the total number of certificated classroom teachers statewide. In order to provide funding for the full number of mentor teachers authorized by law (5 percent times the number of certificated classroom teachers), the proposed budget would have to be augmented by $23.9 million.

The budget also proposes state operations expenses of $88,000 (Item 6100-001-001) for the department to add one consultant and one clerical position for workload associated with the administration of the Mentor Teacher program. This workload consists of (1) determining the reimbursement entitlements of school districts and county offices of education and (2) providing technical advice and assistance to districts and county offices participating in the program.

Report Needed on Use of Mentors

We recommend that the Legislature adopt supplemental report language directing the State Department of Education to report to the Joint Legislative Budget Committee and the fiscal committees by November 1, 1984 on the duties performed by mentor teachers.

As noted, SB 813 requires that mentor teachers spend, on average, at least 60 percent of their time in the direct instruction of pupils, with the remaining time to be spent on such activities as curriculum development and providing assistance to new teachers. In addition, the act requires the Superintendent of Public Instruction to propose, and the State Board of Education to adopt, rules and regulations governing the operation of the Mentor Teacher Program.

Our review of the department's draft rules and regulations, however, indicates that they provide no additional restrictions on the types of duties which may be assigned to mentor teachers. As a result, school districts and county offices of education participating in the Mentor Teacher program will have considerable discretion in determining the nature and extent of these duties which may or may not be worth $2,000 a semester.

If it is to assess the benefits of the Mentor Teacher Program in relation to its cost, the Legislature must be provided information on the duties actually performed by mentor teachers in participating school districts and county offices of education. Accordingly, we recommend that the Legislature adopt the following supplemental report language:

"The State Department of Education shall report to the Joint Legislative Budget Committee and the fiscal committees by November 1, 1984 on the nature and extent of duties performed by mentor teachers. This report shall be based on a representative sample of school districts and county offices of education participating in the Mentor Teacher Program and shall include specific examples of the additional products and services obtained as a result of the program."

DEPARTMENT OF EDUCATION—Continued

b. Teacher Education and Computer (TEC) Centers (Item 6100-191-001(h))

We recommend approval.

The Teacher Education and Computer (TEC) Centers were established in 1982–83 as part of the Investment in People program. There are 15 TEC Centers statewide. These centers provide regional delivery of staff development services, with an emphasis on mathematics, science, and computer education.

The budget proposes a General Fund appropriation of $12.0 million for the TEC Centers in 1984–85. This is an increase of $5.3 million, or 79 percent, over the estimated current-year expenditures of $6.7 million. The increase consists of (1) $5.1 million to expand services provided by the existing TEC Centers and (2) $0.2 million for a 3 percent COLA.

Our analysis indicates that an augmentation for the TEC centers is warranted, for the following reasons:

- Currently, there is a shortage of mathematics and science teachers, necessitating the reassignment of teachers from other areas of the curriculum. This problem may be exacerbated by the greater emphasis placed on mathematics and science as a result of the new high school graduation requirements which will take effect in 1986–87. To date, TEC Centers have been emphasizing computer education and have been unable to meet the need for mathematics and science training;
- Schools are expanding the number of courses offered in computer education. Consequently, the demand for TEC center services may increase accordingly;
- The Legislature, in SB 813, appropriated $5.1 million for TEC Center expansion in 1984–85, but the Governor vetoed these funds; and
- Research on the impact of staff development has, on balance, been favorable.

For these reasons, we recommend approval of funding for this program as budgeted.

c. Administrator Training and Evaluation Program (Item 6100-191-001(a))

Chapter 1388, Statutes of 1982, authorized the California Leadership Institute program, in which a school district, county office of education, or a consortium of these agencies may apply for funds to establish a three-year project for administrator training. Senate Bill 813 changed the name of the program to the Administrator Training and Evaluation program, and appropriated approximately $500,000 to fund it in the budget year. These funds were vetoed by the Governor. The budget proposes $2.0 million for the program in 1984–85.

Allocation Plan for Funds Warranted

We recommend that the Legislature adopt Budget Bill language directing the State Department of Education to establish one administrator training center in each Teacher Education and Computer Center region by allocating up to $100,000 for each center, contingent upon the provision of local matching funds, because our review indicates that this is feasible and would permit more centers to be established at a lower cost to the state, for a General Fund savings of $500,000. (Reduce Item 6100-191-001 by $500,000.)

The $2.0 million requested in the budget would establish 10 administrator training and evaluation centers, with each center operating on a budget of $200,000. The department argues that the $500,000 level established in SB 813 would be inadequate to implement the program statewide.

We agree that the level of funding contained in SB 813 would not be adequate to implement a comprehensive administrator training program on a statewide basis. Our review of existing county and district programs for administrator training, however, indicates that funds could be allocated in a manner which would result in better regional delivery of services at a cost to the state which is less than the amount proposed in the budget.

Local Matching. Seven county offices of education offer inservice training programs specifically for administrators: Alameda, Los Angeles, Orange, Riverside, Sacramento, San Diego, and Santa Clara counties. The cost of these programs ranges from approximately $25,000 to $350,000. They are funded primarily from within the county offices' revenue limits (consisting of state and local funds) and fees charged to participants (usually paid by school districts). Some school districts, such as Los Angeles and San Juan Unified, also operate training programs for their administrators.

The experience of these county offices and districts indicates that local support for administrator training programs is feasible. Local funding also increases the likelihood that the program is responsive to local needs. At the same time, state funds may be needed to stimulate a local effort and to compensate for the limitations on local funds. For these reasons, we recommend that state funds be appropriated for administrator training and evaluation centers, contingent upon matching local funds.

Number of Centers. Based on the department's estimated budget of $200,000 per center, our proposal would require a state allocation of $100,000 for each center, with a 50 percent local matching requirement. Thus, an appropriation of $1 million would be needed to fund the 10 centers proposed in the budget. In order to provide effective regional delivery of services, however, we recommend that one administrator training and evaluation center be established in each of the 15 Teacher Education and Computer (TEC) Centers. This would cover the entire state and would facilitate coordination with the TEC Centers, which provide staff development services to teachers.

In summary, our proposal provides for the establishment of 15 administrator training and evaluation centers at a state General Fund cost of $1.5 million, thereby permitting a reduction of $500,000 in the amount budgeted.

We note that because the TEC Center regions vary considerably in population and geographical characteristics, allocating $100,000 to each administrator training center would provide more funds, on a per-administrator basis, to the rural areas. This, however, can be justified on the basis of (1) fixed costs common to all programs (2) higher operating costs (such as transportation) in rural areas, and (3) fewer resources currently devoted to administrator training in these areas.

We recommend that the Legislature implement our proposal by reducing Item 6100-191-001 by $500,000 and adopting the following Budget Bill language:

"Provided that the State Department of Education shall establish an administrator training and evaluation center in each Teacher Education

DEPARTMENT OF EDUCATION—Continued

and Computer Center region, by allocating, from funds appropriated in this item, up to $100,000 for each center, contingent upon matching local funds contributed to the administrator training center."

d. Pilot Projects for Administration and Management (Item 6100-191-001(b) and (c))

Current law authorizes two pilot project programs for school administration and management:

- *Pilot Project for Administrative Personnel.* Chapter 1388/82 (AB 3253) authorized the establishment of a pilot project for administrative personnel recruitment and selection. Senate Bill 813 made minor modifications to the program, but the program has not been funded to date. The budget proposes $250,000 from the General Fund to implemenmt the pilot project in 1984–85.
- *Innovative Local Experiments to Strengthen Personnel and Management.* Senate Bill 813 requires the Superintendent of Public Instruction to select up to five pilot projects designed to: improve the efficiency of school district operations, devise incentives for personnel to serve in high-demand areas, improve on-the-job training of new personnel, and improve personnel evaluations. The legislation declares that the state should fund the marginal costs of the projects, and terminates the authorization for these projects on July 1, 1985. The budget proposes $250,000 from the General Fund for this program in 1984–85.

The budget also proposes $44,000 to establish a new position to administer the two pilot project programs.

Evaluation of Pilot Projects Needed

We recommend that the Legislature adopt supplemental report language requiring the Department of Education to evaluate, or contract for the evaluation of, the pilot projects for administrative personnel and strengthening personnel and management, in order to facilitate legislative review of the projects.

Although evaluation of the pilot projects is not required by authorizing legislation, programs established on a pilot project basis generally are evaluated in order to facilitate review by the Legislature and to assess the desirability of replicating the projects. Evaluations of this type can be accommodated within the baseline resources of the department's Division of Program Evaluation and Research. Consequently, we recommend that the Legislature adopt the following supplemental report language requiring the department to provide an evaluation of the pilot projects:

"The Department of Education shall evaluate, or contract for the evaluation of, the pilot projects for administrative personnel and strengthening personnel and management. The evaluation report shall be submitted to the Joint Legislative Budget Committee and the fiscal committees by October 1, 1985."

e. Other Staff Development Programs (Item 6100-191-001(e) and (g))

We recommend approval.

Other staff development programs funded in the budget include the School Personnel Staff Development program and the Bilingual Teacher Training program.

The budget proposes $3.5 million for the School Personnel Staff Development program in 1984–85. This is an increase of 3 percent (COLA) over estimated current-year expenditures. Under this program, the state provides funding for grants to school districts to conduct staff development activities.

The budget also proposes $802,000 for the Bilingual Teacher Training program in 1984–85, reflecting a 3 percent increase for a COLA. This program provides training for teachers seeking certification as bilingual instructors.

Our analysis indicates that these programs are serving their intended purpose and, accordingly, we recommend approval as budgeted.

3. Special Education (Items 6100-006-001, 6100-161-001, 6100-161-890, and 6100-007-001)

Special education includes (1) local assistance to support the Master Plan for Special Education, (2) state administration, (3) support for the state special schools, and (4) assistance to the Southwest Regional Deaf-Blind Center. In 1984–85, special education will serve approximately 363,000 students who are learning, communicatively, physically, or severely handicapped.

Table 19 shows the expenditure and funding for special education in the prior, current, and budget years. The budget proposes total expenditures for this program of $853,389,000 in 1984–85, a decrease of $75,926,000, or 8.2 percent, from the current-year level.

During the budget year, the General Fund will support 88 percent of all special education expenditures. Federal funds will account for 11 percent of the total and reimbursements will finance the remaining 0.5 percent.

Table 19
Special Education Program Expenditures and Funding 1982–83 through 1984–85 (in thousands)

	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Change Amount*	*Change Percent*
1. State Operations					
State administration	$5,090	$5,601	$5,740	$139	2.5%
Clearinghouse depository	319	494	514	20	4.0
Southwest Deaf-Blind Center	425	254	273	19	7.5
Special schools	32,534	36,154	37,138	984	2.7
Subtotals	$38,368	$42,503	$43,665	$1,162	2.7%
2. Local Assistance:					
General Fund	732,844	797,290	720,202	−77,088	−9.7
Federal funds	81,912	89,522	89,522	—	—
Subtotals	$814,756	$886,812	$809,724	−$77,088	−8.7%
Totals	$853,124	$929,315	$853,389	−$75,926	−8.2%
General Fund	*$762,952*	*$829,781*	*$753,562*	*−76,219*	*−9.2%*
Federal Funds	*86,016*	*95,027*	*95,169*	*142*	*0.1*
Reimbursements	*4,156*	*4,489*	*4,640*	*151*	*3.4*
Special Deposit Fund	—	*18*	*18*	—	—

The net decrease in funding for special education in the budget year of $76 million reflects (1) elimination of the $23.5 million one-time appropriation for the 1982–83 deficit, (2) transfer of special education transportation funds to the home-to-school transportation item ($86.7 million), (3)

DEPARTMENT OF EDUCATION—Continued

an increase for a three percent cost-of-living adjustment ($36.9 million), (4) a $3,893,000 reduction due to an increase in local revenues from the supplemental property tax roll, (5) a $142,000 increase in federal aid, (6) a $151,000 increase in reimbursements, and (7) baseline increases for state administration. Despite the apparent reduction, the proposed level of funding—$814 million—is sufficient to fund estimated program workload in 1984–85.

a. Master Plan for Special Education (Item 6100-161-001)

Students in California's K–12 public schools receive special education and related services through the Master Plan for Special Education (MPSE). Under the Master Plan, school districts and county offices of education administer special education services through regional organizations called Special Education Local Plan Areas (SELPAs). Each SELPA is required to adopt a local plan which details the provision of special education services among the member districts. The SELPA may consist of a single district, a group of districts, or the county office of education in combination with districts.

Special education funding is provided through Ch 797/80, as amended by Ch 1094/81 (SB 769) and Ch 1201/82 (SB 1345). School districts and county offices of education receive state reimbursement for costs incurred in their special education programs based on (1) the current level of services provided, (2) costs incurred in 1979–80 adjusted for inflation, (3) local general fund contributions to the program, (4) federal funds, and (5) local property taxes. Transportation costs associated with the special education program are reimbursed based on the actual transportation costs incurred in the prior year, while regional services are funded at a uniform reimbursement rate per pupil served in the current year.

Students Served. Currently, special education programs serve approximately 363,000 students with learning and/or physical disabilities, through one of four instructional settings:

- Designated Instruction and Services (DIS)—an instructional setting that provides special services such as speech therapy, guidance, and counseling to students in conjunction with their regular classes.
- Resource Specialist Program (RSP)—a program that utilizes school-based personnel to help integrate special education students into regular education programs when appropriate.
- Special Day Class or Center (SDC)—a classroom or facility designed to meet the needs of severely handicapped students who cannot be served in regular education programs.
- Nonpublic Schools (NPS)—schools serving special education students whose needs cannot be met in public school settings.

Table 20

Special Education Enrollment

December 1, 1982

	Disability				
Placement	*Communication*	*Learning*	*Physical*	*Severe*	*Total*
Designated Instruction and Service (DIS)	88,001	7,059	15,600	1,215	111,875
Resource Specialist Program (RSP)	829	134,885	842	1,094	137,650
Special Day Class (SDC)	9,744	55,709	7,137	36,692	109,282
Nonpublic Schools (NPS)	121	1,069	103	2,534	3,827
Totals	98,695	198,722	23,682	41,535	362,634

Table 20 displays the distribution of special education students, by general disability and instructional setting, as of December 1, 1982.

Projected Current-Year Program Deficit. The Department of Finance estimates that the special education program may incur a $7.0 million entitlement deficit in 1983–84, exclusive of the deficit in the special transportation program. In other words, total statewide entitlements may exceed the revenues available from all sources by $7.0 million. This estimate, however, is based on data from the second principal apportionment of 1982–83, rather than on current-year data. A more accurate estimate of the current-year requirements will be available by March 1984 when data for the 1983–84 first principal apportionment is collected and analyzed. We will comment during budget hearings on current-year funding requirements and their implication for the budget year when the 1983–84 first principal apportionment data becomes available.

Special Education Class Utilization Standards

The Master Plan for Special Education authorizes school districts and county offices of education to receive state support for their special education programs based upon the number of classes they offer. The classes, referred to for funding purposes as instructional units, are allocated to the special education local plan area (SELPA) and then distributed among the member districts and county office of education according to the local plan. In most cases, the number of instructional units operated by a district is proportionate to the district's K–12 enrollment, although a district may operate additional units on behalf of the entire SELPA.

Under the MPSE, state support for local programs is authorized up to specified enrollment "caps." First, state support is authorized for classes serving only up to 10 percent of the district's K–12 enrollment. If a district serves more than 10 percent of its K–12 enrollment, the cost of serving the additional students must be borne by the district from its general fund. Second, state funding is provided for the three instructional settings—special day classes (SDC), resource specialist programs (RSP), and designated instruction and services (DIS)—up to three "sub-caps." In other words, a school district will receive state aid for each instructional setting up to certain specified levels which are also measured as a percentage of the district's K–12 enrollment. Within these sub-caps, each school district is *expected* to maintain a specified average class size for the three settings —10 students for SDC, 24 students for RSP, and 24 students for DIS. Existing law, however, does not *require* that these average class sizes be maintained.

Senate Bill 769 (Ch 1094/81) was adopted in September 1981 to address an anticipated funding deficit in the special education program. In an attempt to contain the costs of the program, the act implemented growth controls to regulate the increase in the number of state-funded instructional units. One provision required school districts to maintain certain class size averages if they intended to add instructional units to their programs, and another required that sufficient students be identified as needing special education to insure that the new units would be filled to certain levels. These provisions were intended to (1) ensure full utilization of the existing special education classes and (2) justify the additional instructional units in those districts experiencing increasing special educa-

DEPARTMENT OF EDUCATION—Continued

tion enrollments. The measure, however, did not address class utilization for districts in which special education enrollments were either constant or declining.

Reallocation of Excess Units Warranted

We recommend the Legislature adopt Budget Bill language requiring the Department of Education to reallocate all underutilized special education instructional units to special education local plan areas (SELPAs) that can demonstrate a need for additional units.

As noted, existing law (Ch 1094/81) requires school districts seeking additional state-funded instruction units to demonstrate that all of their existing special education classes are fully utilized. Districts that do not seek additional units, however, are not required to maintain certain class size averages in their special education programs.

We can find no analytical justification for allowing districts to operate special education classes with student/teacher ratios significantly below those of other districts simply because they are not seeking additional state-funded instructional units. Left unchanged, the current funding provisions allow a district with a declining special education population to offer a significantly "richer" program, as measured by student/teacher ratios, than other districts maintaining the Ch 1094/81 standards. As a result, the quality of special education services statewide varies depending upon the relative growth or decline in special education populations among regions.

By requiring all districts to maintain the Ch 1094/81 class size standards and recapturing underutilized units for reallocation to SELPAs that demonstrate a need for additional units, the Legislature would promote a uniform level of service across the state. Furthermore, the reallocation of underutilized units would provide a more efficient allocation of special education funds. School districts that currently operate special education classes with significantly fewer students than the averages called for by Ch 1094/81 could give up some of these classes without diminishing the quality of the existing program. Although the average class size for these districts would increase, the increase would not be so large as to result in overcrowded classes. The districts receiving additional units as a result of the reallocation, on the other hand, would be able to alleviate some of their overcrowding with the new classes.

The need to reallocate underutilized instructional units is even more pressing given the fact that the state has provided no funds for growth in special education since 1981–82. Both the 1982 and 1983 Budget Acts limited funding in special education to the number of instructional units funded in 1981–82. As a result, districts experiencing average ADA growth which includes students with exceptional needs have had to accommodate the additional students in a program the size of which has essentially been unchanged since 1981–82. Any growth in the special education program since 1981–82 has had to be funded entirely from local revenue sources. A district with a special education enrollment that is growing faster than the statewide average faces an even more pressing problem because no waivers are provided to the no-growth provisions.

For these reasons, our analysis indicates that *all* districts should be required to maintain the class size averages specified in Ch 1094/81, and underutilized instructional units should be reallocated to SELPAs that can demonstrate a need for additional units.

We can think of two objections to the reallocation of underutilized instructional units that we are proposing. First, some argue that such a policy would encourage districts to recruit students for placement into the underutilized classes in order to prevent the state from recapturing these units. This argument, however, ignores existing procedural safeguards to ensure that students are appropriately identified as needing special education services. Specifically, the decision to place a student in a special education class must be justified by an assessment of the student's needs and the development of an individualized education plan (IEP). If a student's parents believe that their child has been inappropriately placed in a special education program, they may avail themselves of due process procedures provided by law (just as when students are inappropriately denied special education services).

Second, some argue that a reallocation of units would result in program reductions in some areas and loss of jobs. This argument is even less persuasive, since state policy regarding special education is not aimed at either creating or preserving jobs. Instead, the state's interest rests in providing an appropriate education to students with exceptional needs. The proposed policy change will promote this goal by redirecting limited state funding from areas which have a lesser need to areas which have a greater need for special education support.

Accordingly, we recommend that the Legislature adopt the following Budget Bill language:

"The Department of Education shall apply the class utilization standards adopted in Ch 1094/81 to all existing special education instructional personnel service units and shall reduce the number of instructional units claimed by each special education local plan area (SELPA) by the appropriate amount. The instructional units recaptured by the Department of Education shall be available for reallocation to SELPAs that can demonstrate a need for special education growth."

No State Funds Provided For Special Education Growth

The budget proposes that no state funds be made available for general growth in the special education program in 1984–85. (As discussed elsewhere in this *Analysis,* however, the budget proposes to allocate up to $2 million in unanticipated, excess federal funds for growth in special education programs for specific types of children.) This proposal continues a "no-growth" policy for special education which was first imposed in the 1982 Budget Act. Thus, if the budget proposal is adopted, the state-funded service level in 1984–85 would be roughly equal to the service level offered in 1981–82.

Background. The Master Plan for Special Education, first adopted as a pilot program in 1974, was designed to provide a comprehensive system of education and related services to handicapped students. Statewide implementation of the plan was phased in over a seven-year period, with all districts participating by 1981–82. Statewide implementation, however, proved more costly than originally estimated. As a result, the program incurred significant entitlement deficits commencing in 1980–81.

In 1980–81, special education entitlements exceeded the Budget Act appropriation by $117 million. Moreover, in the summer of 1981, the deficit for the 1981–82 fiscal year was projected to be over $200 million. In response to these deficits, the Legislature appropriated $30 million in the 1981 Budget Act to fund part of the 1980–81 shortfall, and in September

DEPARTMENT OF EDUCATION—Continued

1981 adopted SB 769 (Ch 1094/81). This measure (1) reduced the state's obligation to the program by changing MPSE entitlement formulas and (2) eased some of the program requirements on local education agencies to allow for greater flexibility and opportunities for local cost savings. The changes brought about by SB 769 reduced the 1981–82 special education deficit to $59 million.

To reduce further the 1981–82 deficit which remained after SB 769, the Legislature appropriated an additional $35 million in the 1982 Budget Act. The Legislature specified, however, that these funds would be made available for allocation only if another reform measure—SB 1345—was adopted.

Senate Bill 1345 (Ch 1201/82) was enacted in June 1982 thereby releasing the $35 million to cover part of the 1981–82 special education deficit. Like SB 769, SB 1345 eliminated some of the mandates in the special education program and amended some entitlement formulas to reduce state costs. The formula changes yielded a reduction in state costs totaling $12 million, while the savings resulting from the elimination of mandates accrued solely to local education agencies.

The 1982 Budget Act was important not only because it prompted passage of SB 1345, but also because it established the no-growth policy for special education which has been carried forward in the 1983 Budget Act and is proposed in the Governor's Budget for 1984–85.

Implications of the No-Growth Policy. The 1982 Budget Act specified that Special Education Local Plan Areas (SELPAs) would be eligible to receive state funding only for those special education classes which were funded in 1981–82. This provision, like the changes adopted in SB 769 and SB 1345, was designed to contain the growing state costs of the special education program. Similar Budget Act language was adopted for 1983–84 and is proposed for 1984–85. If the 1984–85 Budget for special education is adopted as introduced, the special education program statewide will be essentially unchanged since 1981–82.

The provision of the 1982 and 1983 Budget Acts limiting state-funded instructional units to the number funded in 1981–82 is applied at the SELPA level. It is therefore possible to reallocate units *among* the member districts of the SELPA to accommodate enrollment shifts—but not increases—within the region.

There are two ways to view the effects of the no-growth policy on the special education program. The first is to consider its effects on the *services* provided to handicapped students and the second is to consider its effects on state and local *costs.*

Effect on Services. Viewed from a programmatic perspective, the no-growth policy freezes the service level provided to handicapped students at the 1981–82 level. If the number of students requiring services had not changed since 1981–82, such a policy would have no real significance. Because the state's total K–12 enrollment in 1984–85 is estimated to be 2.7 percent greater than it was in 1981–82, however, it is likely that the number of handicapped students requiring service will have increased by a similar percentage.

Population projections made by the Department of Finance indicate that in 1984–85 there will be approximately 112,000 more students in attendance in the state's K–12 public schools than there were in 1981–82. Assuming that 10 percent of these students would be identified as requiring some form of special education service (this is the service proportion authorized for state funding), the no-growth policy will result in special education programs serving 11,200 fewer students in 1984–85 than would have been served in the absence of the policy.

Recent special education pupil counts indicate that even under the freeze on state-funded special education classes imposed by the 1982 Budget Act, local education agencies have increased the number of students they have served. Between December 1, 1981 and December 1, 1982, the special education pupil count increased by 4,955—to a total of 362,634. Thus, the freeze on state-funded instructional units has not resulted in an absolute freeze on the number of students served.

The impact of the freeze, however, is more significant if viewed from the perspective of a SELPA or school district. While statewide ADA growth between 1981–82 and 1984–85 is projected at 2.7 percent, the growth experienced by an individual district may be significantly higher or lower. For districts experiencing enrollment decreases in both their regular and special education programs, the no-growth policy poses no particular problem. In fact, the quality of the special education program will likely *improve* because of a decrease in the student/teacher ratio. On the other hand, districts with increasing special education enrollments will find it more difficult to serve these students within the existing program. Table 21 illustrates the degree to which changes in ADA vary from district to district, by displaying the change for ten selected districts and comparing these changes to the statewide change.

Table 21
Change in Average Daily Attendance For 10 Selected Districts 1981–82 to 1984–85

	Average Daily Attendance		*Change*	
District	*1981–82*	*1984–85*	*Amount*	*Percent*
Elsinore Union High School	2,298	3,054	756	32.9%
Grass Valley Elementary	1,675	2,080	405	24.2
Bakersfield City Elementary	4,436	4,952	516	11.6
Irvine Unified	15,428	17,098	1,670	10.8
Chico Unified	8,125	8,583	458	5.6
Statewide	4,200,912	4,313,134	112,222	2.7
Walnut Creek Elementary	2,387	2,243	−144	−6.0
Brawley Union High School	1,524	1,411	113	−7.4
San Leandro Unified	6,256	5,639	−617	−9.9
San Rafael City High School	2,705	2,327	−378	−14.0
Belmont Elementary	2,138	1,705	−433	−20.3

The data in Table 21 indicate that the effect of the no-growth policy on an individual district may be significant and may vary considerably from what would be expected in the state as a whole.

Effect on Costs. The no-growth policy also has a fiscal effect which becomes more significant as local education agencies come under greater pressure to expand their programs. While the no-growth policy limits the state's liability to fund the special education program, school districts and county offices of education are still required, under provisions of federal law, to provide a "free and appropriate public education" to all students in their jurisdiction. Consequently, students identified as requiring special

DEPARTMENT OF EDUCATION—Continued

education services *must* be placed in the special education program. If the existing program cannot accommodate the additional students, the local provider is forced to add special education classes even though no additional state support is forthcoming for these classes. The new classes must then be funded from the district's general fund. This redirection of local general fund revenue to special education, commonly called "encroachment," leaves the district with less money to support its regular education program. For districts which experience a large increase in their special education populations over the 1981–82 level, expansion of the special education program may be unavoidable and the redirection of local funds may be significant.

Our analysis indicates that state-funded enrollment growth in the special education program is warranted; however, we have no analytical basis for recommending a particular level of growth. We believe that this is a matter of policy which should be left to the Legislature to decide. If funds are provided for special education growth in 1984–85, however, we would recommend that, for the reasons cited above, the funds be targeted to LEAs that show the greatest need. Need should be evaluated on a case-by-case basis, in terms of both regular K-12 enrollment growth and special education enrollment growth and with respect to the special circumstances prevailing in the LEA.

We estimate that $1.0 million in additional state support would fund enough classes to serve an additional 400 to 450 students in special education. This estimate is based on the assumption that (1) these students are placed in special education classes—SDC, DIS, and RSP—in the same proportion as the existing special education population, and (2) the cost of each additional class is equal to the existing statewide average cost per class for each instructional setting. To the extent that a disproportionate share of enrollment growth were to occur in the more expensive SDCs or in the LEAs having costs higher than the statewide average, fewer students would be served with additional funds.

Special Education Transportation

Under the special education transportation program, which is authorized through 1983–84, students with exceptional needs are transported to school from either a "pickup station" or directly from home ("door to door"), depending upon the severity of the student's handicap, his or her age, and the distance from home to the school. Students who are not severely handicapped are expected to be served through the regular Home-to-School Transportation program available to the nonhandicapped. In addition to transportation to and from school, a student with exceptional needs may receive special transportation services to programs that provide related services not offered at the school site. These related services, however, must be specified in the student's individualized education program (IEP).

School districts and county offices of education are authorized to receive state support for their special transportation programs, based on the allowable costs they incurred in the prior year. Allowable costs generally include (1) *direct costs,* such as the salary and benefit costs of bus drivers, mechanics, and aides, and (2) *support costs,* such as the salary and benefit costs of the clerical and maintenance staff and other operating expenses. School districts are entitled to 80 percent reimbursement of their prior-year transportation costs, while counties are entitled to 100 percent reimbursement.

Funding Deficits. The special transportation program, like the special education program, has incurred significant entitlement deficits since the MPSE was implemented statewide in 1980–81. In 1980–81, local transportation entitlements exceeded the amount available by $10.8 million. In 1981–82, the transportation deficit increased to $28.0 million and was $27.1 million for 1982–83. For 1980–81 and 1981–82, however, the following year's Budget Act appropriated funds to reduce the prior-year deficit. As a result, the transportation deficit in 1980–81 ended up being $8.4 million, and for 1981–82 the deficit finally amounted to $12.0 million.

The 1983 Budget Bill that the Legislature sent to the Governor contained $27.0 million to fund the 1982–83 deficiency in special transportation. Before signing the Budget Bill, the Governor vetoed these funds; consequently, the 1982–83 transportation deficit stands at $27.1 million.

Table 22 displays the special transportation funding for 1980–81, 1981–82 and 1982–83.

Table 22
Special Education Transportation Funding
1980–81 through 1982–83
(in millions)

	1980–81	*1981–82*	*1982–83*
Transportation entitlement	$70.9	$92.3	$107.4
Less: Budget Act appropriation	−60.1	−64.3	−80.3
Deficit	$10.8	$28.0	$27.1
Less: deficiency appropriation	−2.4	−16.0	−0.0
Net deficit	$8.4 [a]	$12.0	$27.1

[a] Estimate based on special transportation's share of total entitlement.

Deficits in both the special education program and the special transportation program prompted the Legislature to adopt two measures which (1) reduced local education agencies' entitlements to state support and (2) reduced or limited the services provided to handicapped students. Senate Bill 769 (Ch 1094/81) prohibited districts from transferring their special transportation programs to the county office of education if the transfer would result in an increase in state costs, and SB 1345 (Ch 1201/82) limited "approved transportation costs" to only those costs incurred in serving students with exceptional needs, who cannot be appropriately served in the regular Home-to-School Transportation program.

Recent Changes. Senate Bill 813 also made significant changes to the special transportation program. Beginning in 1984–85, SB 813 eliminates special transportation as a separate program and specifies instead that students with exceptional needs shall receive services through the regular Home-to-School Transportation program. The act also requires districts and county offices of education to establish a transportation fund and to deposit into the fund "all transportation allowances received in any fiscal year" and any other funds deemed appropriate. The amounts deposited in the transportation fund must be expended on approved transportation costs only.

We believe the changes made by SB 813 raise two issues warranting legislative consideration. These issues concern (1) limitations on transportation use and (2) the deficit carried forward from prior years.

DEPARTMENT OF EDUCATION—Continued

By folding the special transportation program into the regular home-to-school program, SB 813 effectively prohibits local education agencies from receiving state reimbursement for transportation costs associated with travel to and from sites providing related services required by a student's IEP. This is because the provisions governing the Home-to-School Transportation program allow reimbursement only for costs incurred for travel from home to school and back. In our analysis of Home-to-School Transportation (Item 6100-111-001), we recommend that Budget Bill language be adopted to allow school districts and county offices of education to continue to receive state reimbursement for costs associated with transporting handicapped students to and from sites providing related services required by an IEP.

The second issue involves the basis on which districts' reimbursements for transportation costs should be determined in 1984–85 and future years. Senate Bill 813 provides that the transportation allowances received by a local education agency in 1983–84 shall establish the maximum level of reimbursement which its transportation fund will receive in subsequent years. As discussed earlier, special transportation incurred a $27.1 million entitlement deficit in 1982–83. Because the combined appropriations for special transportation in the 1983 Budget Act and SB 813 provided no funding to eliminate this deficit, we anticipate a similar deficit for 1983–84. Consequently, if no additional funds are provided for current-year transportation allowances, state support for transportation programs in 1984–85 and beyond will be deficient by approximately $27 million, as measured under the current entitlement system.

Clearinghouse Depository for Handicapped Students

In 1963, the Legislature established the Clearinghouse Depository for Handicapped Students (CDHS). The CDHS serves handicapped students in the state's K–12 public school system, nonpublic schools, and the colleges and universities. The CDHS acts as a central clearinghouse by disseminating information to providers of special education services on sources of braille and large print books, recorded materials, and specialized equipment. The unit also houses and distributes various instructional materials to be used by handicapped students. In addition, the CDHS maintains a tape library which provides recorded instructional materials to students who cannot read conventionally printed materials.

The CDHS receives federal funds for the purchase of materials and equipment for the visually handicapped through the Federal Quota Program of the American Printing House for the Blind. The state's share of funds under the Federal Quota Program is based on annual counts of visually handicapped students, conducted by the CDHS.

Prior to 1982, no state funds had been appropriated to CDHS for the direct purchase of materials and equipment. Instead, state funding was provided for the operation of the clearinghouse only. The 1982 Budget Act, however, provided $850,000 to the CDHS for the direct purchase of equipment and materials for the visually handicapped.

In allocating these funds, CDHS staff evaluated district requests using the following criteria: (1) the immediacy of the need, (2) the ability of districts to provide the equipment, (3) the equipment's applicability in other areas of learning, (4) the acquisition cost, (5) the maintenance cost, and (6) the availability of this equipment from other sources. Based on their evaluation of district requests, CDHS used the 1982 appropriation to purchase specialized equipment to aid in communication (including braille equipment, closed-circuit television systems, special typewriters, and enlarging copy machines), specialized equipment to aid in mobility and orientation (including canes and braille compasses), and other equipment (including microcomputers, tape recorders, and "talking" clocks and calculators).

Under current law, equipment and materials serving handicapped students which are purchased by districts with state or federal funds are the property of the state. It is the responsibility of the CDHS to keep track of these items and reassign them as the needs among the districts change.

The 1983 Budget Act provided no funds for additional equipment purchases by the CDHS, and the budget proposes no funds for this purpose in 1984–85.

b. Federal Public Law 94-142 (Item 6100-161-890)

The Education for All Handicapped Children Act (PL 94-142), enacted in 1975, established the right of all pupils to a "free and appropriate public education", and required that all handicapped individuals aged 3 to 21 years be served by September 1980. Since the enactment of PL 94-142, Congress has appropriated federal funds to states and local education agencies to assist in their implementation of special education programs.

The budget estimates that California's PL 94-142 award for 1984–85 will be $90.2 million, or $419,000 more than the amount received in 1983–84. Of this amount, the budget proposes to allocate $75.0 million for local assistance, $10.4 million for state discretionary programs, and $4.7 million for state administration.

Under the provisions of Ch 797/80 (SB 1870), all federal PL 94-142 funds disbursed as local assistance are used as an offset against state special education costs. Federal funds received by districts through the state discretionary programs, however, do not offset state costs. Consequently, any reduction in the $75.0 million budgeted for local assistance would result in a deficit in special education funding for 1984–85, even if the reduction were made to increase discretionary programs.

The budget also anticipates federal grants of (1) $2.4 million for the Pre-School Incentive Grant program, (2) $1.5 million for the Southwest Regional Deaf-Blind Center, and (3) $206,000 for Handicapped Personnel Preparation Grants.

Increased Funding for State Discretionary Programs. The budget proposes that $10.4 million be made available for direct or indirect expenditure by the State Department of Education for state discretionary programs. This is an increase of $4.4 million over the amount displayed in the budget for 1983–84. The change, however, overstates the actual increase in funding available for state discretionary programs between 1983–84 and 1984–85. This is because AB 70 (Ch 1302/83), the trailer bill to SB 813, provided up to $4 million in unexpended carry-over balances from the 1982 PL 94-142 award for expenditure on state discretionary programs in 1983–84. The additional $4.0 million is contingent upon the actual amount of 1982–83 carry-over funds available, and is not reflected in the Governor's 1984–85 Budget because the amount was not known at the time the budget was prepared. Thus, assuming the full $4 million is made available from AB 70, the budget would result in an increase of only $400,000 in the level of support for state discretionary programs over the 1983–84 level.

State discretionary programs provide either (1) direct services to handicapped students through state- and locally- administered programs or (2)

DEPARTMENT OF EDUCATION—Continued

support services to special education staff and administrators.

- *Direct Services.* These include infant programs for children aged 0 to 3 years; vocational education model sites; assessment centers at the state special schools and the California Youth Authority; and model sites to serve students from different linguistic and cultural backgrounds.
- *Support Services.* State discretionary programs which provide support services to educators and administrators include state personnel development programs; the Special Education Resource Network; local inservice training programs; and programs—such as investigations, mediation, and due process hearings—to ensure compliance with federal and state laws.

Contingency Plan for Unanticipated PL 94-142 Funds. The budget estimates that the state will receive a total of $90,177,000 under the federal PL 94-142 program in 1984–85. The exact amount of California's award, however, will not be known until July 1984. Should the amount of funds received exceed the amount anticipated, the budget proposes that 25 percent of the excess funds be allocated for (1) additional special education classes (instructional units) to serve students from licensed children's institutions (LCIs), and (2) infant programs serving children aged 0–3 years. The budget further proposes that no more than $1 million be made available for each purpose and that funding priority be given to the expansion of local programs serving LCI students before any additional funds are provided for infant programs. The balance of any excess funds would, under the budget proposal, be allocated as additional local assistance funds, resulting in an equivalent reduction in General Fund requirements.

Programs for Students from Licensed Children's Institutions

We recommend that the Legislature adopt Budget Bill language directing the Department of Education to require school districts and county offices of education to meet the class utilization standards adopted in SB 769 (Ch 1094/81) before authorizing additional state-funded instructional units to serve students from licensed children's institutions.

Licensed children's institutions (LCIs) provide residential services to children who require care outside of the home of their parents or guardians. Children are placed in LCIs for a variety of reasons including parental neglect or abuse, delinquency, mental retardation, and emotional disturbances. Most LCIs provide residential care only, although some operate a nonpublic school in conjunction with the residential program. Children residing in LCIs which offer only residential care receive educational services from either the local school district or a nonpublic school. Most children from LCIs who require special education services are served in the local district's program.

In a report titled *Special Education Programs for Children Living in Foster Family Homes and Licensed Children's Institutions,* issued in December 1983, we concluded that the current funding structure for special education programs serving LCI children appears to accomplish its intended purpose of reducing disparities in the financial burdens borne by individual districts that would otherwise result from the uneven distribution of these children among districts. We also found, however, that the Department of Education does not require districts and county offices of education to utilize fully their existing special education classes before authorizing additional state-funded instructional units to serve students from LCIs, despite the fact that this requirement is placed on regular special education programs.

Under current law (Ch 1094/81), local education agencies must maintain certain class size averages in their *existing* special education programs in order to qualify for additional state-funded instructional units. The law further provides that a sufficient number of students must be identified as needing special education services to ensure that any *new* classes will also be "filled" to specified average sizes. We can identify no programmatic or fiscal reason to support the department's practice of exempting local education agencies from meeting the Ch 1094/81 enrollment requirements when authorizing growth in programs serving LCI students. Accordingly, we recommend that the Department of Education, when authorizing additional state-funded instructional units to serve students from LCIs, require LEAs to meet the same class utilization standards that they are required to meet in order to qualify for growth in the special education program generally.

As noted above, the budget proposes that, should the amount of federal PL 94-142 funds received by the state in 1984–85 exceed the amount authorized, up to $1 million of the excess be made available to the Department of Education for allocation to LEAs experiencing growth in the number of LCI students served. We recognize the need to provide additional funds to LEAs experiencing significant growth in their LCI population. In order to ensure that these additional funds are allocated in a cost-effective manner, however, we recommend that the Legislature adopt the following Budget Bill language in Item 6100-161-890:

"In allocating funds received pursuant to subdivision (a) of provision 2 in Item 6100-161-890, the Department of Education shall require school districts and county offices of education to meet the class utilization standards of Ch 1094/81 when authorizing additional state-funded instructional units to serve students from licensed children's institutions."

Infant Programs

We recommend that no funds be provided for the expansion of special education infant programs because the Department of Education has provided no data to show that an expansion is warranted.

The state currently serves approximately 2,200 handicapped infants in 67 programs operated by school districts and county offices of education, at a cost of $2.1 million. These children receive special education and related services through both home-based and center-based programs.

Infant programs operated by districts or county offices of education are not available statewide. Under current law, local education agencies that operated a program in 1980–81 are required to continue to operate the program each year thereafter, unless the program is transferred to another entity. Local education agencies that did not offer an infant program in 1980–81 are not required to establish one or to ensure that services are available to area residents. An LEA may, however, establish a program at its own discretion. Parents of handicapped infants living in areas without infant programs usually are referred to another LEA or to a regional center operated by the Department of Developmental Services.

School districts and county offices of education receive both state and federal funds to support their infant programs. State funds are provided through the Master Plan for Special Education, while federal funds are provided through the state discretionary programs component of the PL 94-142 grant. Approximately $2.1 million is budgeted for allocation for

DEPARTMENT OF EDUCATION—Continued

infant programs in 1984–85. As noted above, the budget proposes that an additional amount of up to $1 million be made available to infant programs from any federal PL 94-142 funds received in excess of the amount anticipated.

We recommend that the budget proposal be rejected, for the following three reasons.

First, the Department of Education has not indicated that there is an additional *need* for these funds. The Governor's proposal would yield a 48 percent increase in federal support for infant programs, assuming an additional $1 million is provided. The department, however, has not presented data that suggests that an increase of this magnitude is warranted.

Second, the department has not provided a plan specifying how the additional funds will be allocated. Without a plan from the department, the Legislature has no way of knowing whether priority will be placed on enhancing existing programs or establishing new programs. Moreover, without a plan the department will be unable to identify in a consistent manner districts and county offices of education that have the greatest need for these funds, or, in fact, what constitutes need in the program.

Finally, the budget proposal, in effect, redirects $1 million from the General Fund (since this is the savings that the General Fund would realize in the event excess federal funds were distributed as local assistance) thereby reducing the amount which could be used by the Legislature to fund other, higher priority programs.

Accordingly, we recommend that no additional funds be made available for special education infant programs in 1984–85. To implement this recommendation, the Legislature should delete subdivision (b) of provision 2 in Item 6100-161-890.

c. State Special Schools (Item 6100-006-001)

We recommend approval.

The state operates six special schools for handicapped children. These schools offer both residential and nonresidential programs for students who are deaf, blind, neurologically handicapped, and multihandicapped. Only those students who cannot receive an appropriate education in their district of residence are eligible for admission to a special school. In 1984–85, these schools will serve approximately 1,030 students who are deaf and 125 students who are blind. In addition, approximately 420 students with neurological handicaps will receive diagnostic assessment services.

Table 23 displays the enrollment and cost per student for the six special schools for the prior, current, and budget years.

As shown in Table 19, the budget proposes an appropriation of $37,138,000 for the state special schools in 1984–85. This is an increase of $984,000, or 2.7 percent, over the current-year level. The significant changes reflected in this increase are: (1) an $818,000 increase for required employee compensation benefits, (2) a $290,000 increase to offset the effects of inflation on the amount budgeted for operating expenses and equipment, (3) a $227,000 increase for merit salary adjustments, (4) a $154,000 increase in federal support, and (5) a $505,000 reduction for one-time unemployment insurance payments imposed by Chapter 60, Statutes of 1983 and funded by SB 813. Our review indicates that these changes are justified and we therefore recommend approval of the amount budgeted.

Table 23
Enrollment and Cost Per Student in Special Schools
1982–83 through 1984–85

	Students Served			*Cost Per Student*		
	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Actual 1982–83*	*Estimated 1983–84*	*Proposed 1984–85*
School for the Blind, Fremont						
Blind	7	3	2	$24,000	$25,333	$26,500
Multihandicapped Blind	101	112	123	31,436	30,848	29,537
School for the Deaf, Fremont						
Deaf	511	490	480	15,935	18,424	19,471
Multihandicapped Deaf	56	60	60	22,911	26,417	27,917
School for the Deaf, Riverside						
Deaf	449	402	380	17,040	19,918	21,626
Multihandicapped Deaf	104	108	110	20,702	24,343	26,427
Diagnostic School, San Francisco						
Short-term assessment	72	140	140	3,778	2,343	2,407
Long-term assessment	37	45	44	26,270	27,289	28,818
Diagnostic School, Fresno						
Short-term assessment	131	140	140	2,863	2,957	3,093
Long-term assessment	55	53	52	21,382	24,604	26,365
Diagnostic School, Los Angeles						
Short-term assessment	141	140	140	2,603	2,793	2,929
Long-term assessment	46	49	48	24,391	26,633	28,542

Unemployment Insurance Benefits for Nonprofessional Employees

Chapter 60, Statutes of 1983 (SB 400), required, among other things, that unemployment insurance benefits be paid to the nonprofessional employees of the state special schools during the summer months between the academic years. Such benefits are not paid to employees of K–12 school districts or to employees of the public institutions of higher education. The measure was signed into law without an appropriation, even though it imposed additional costs on the state special schools for 1983–84. Senate Bill 813 appropriated $505,000 in 1983–84 to fund the additional costs of unemployment insurance benefits imposed on the state special schools by Ch 60/83. Actual costs are estimated to be only $250,000 in 1983–84.

The budget provides no funds in 1984–85 to provide for the unemployment insurance benefit payments required by the provisions of Ch 60/83. Instead, the administration proposes in the trailer bill that these provisions be repealed. We believe this proposal is reasonable, given the state's policy toward other K–12 and higher education employees.

Cost Review of the Diagnostic Schools

The state operates three diagnostic schools for the neurologically handicapped. These schools are located in San Francisco, Fresno, and Los Angeles, serving the northern, central, and southern regions of the state, respectively. The diagnostic schools are responsible for providing assessment services to school districts and county offices of education for students who cannot be properly assessed at the local level. In general, these students have multiple handicaps and some form of neurological disorder. Local efforts to assess the student properly must be exhausted before a referral to a diagnostic school can be made.

In last year's *Analysis*, we recommended that the Legislature adopt supplemental report language directing the Department of Education to submit a report on the feasibility of contracting for assessment services for

DEPARTMENT OF EDUCATION—Continued

students with neurological disorders. Our review indicated that the department had not evaluated whether other diagnostic institutions, such as private hospitals or medical centers, could provide assessment services comparable to those provided at the special schools, at less cost. The Legislature adopted the proposed supplemental report language, and the department was to have submitted its report to the fiscal committees by December 1, 1983. At the time this *Analysis* was prepared, however, the department's report had not been submitted.

If the report is submitted prior to budget hearings, we will prepare comments and recommendations for the Legislature as appropriate.

d. Special Schools Transportation (Item 6100-007-001)

We recommend approval.

Each of the six state special schools is authorized to receive up to $389 in state funding annually for each pupil enrolled in the school's residential program, for the purpose of providing transportation services. Transportation to and from the student's home is available for weekends and holidays and is provided either directly by the school or indirectly through a contract with private carriers.

The budget proposes that $503,000 be made available to the state special schools for the purpose of providing transportation services to residential students at the schools in 1984–85. This amount represents a continuation of the level of funding authorized for this purpose in the current year. Our review indicates that the budget request is reasonable and, accordingly, we recommend approval.

Table 24

Funding for Vocational Education Programs
1982–83 through 1984–85
(dollars in thousands)

	Actual 1982–83	Estimated 1983–84	Proposed 1984–85	Change Amount	Change Percent
State Operations					
General Fund	$3,223	$3,044	$2,677	−$367	−12.1%
Federal funds[a]	4,377	4,893	5,018	125	1.6
Reimbursements/Special deposit fund[b]	1,169	2,374	2,286	−88	−3.7
Subtotals	$8,769	$10,311	$9,981	−$330	−3.2%
Local Assistance					
School-Based programs:					
General Fund	—	$3,088	$500	−$2,588	−83.8%
Federal funds[a]	$49,808	63,274	57,152	−6,122	−9.7
Reimbursements[b]	10,686	14,175	13,325	−850	−6.0
Subtotals	$60,494	$80,537	$70,977	−$9,560	−11.9%
Regional Occupational Programs:					
General Fund	$152,929	$163,174	$168,123	$4,949	3.0%
Totals	$222,192	$254,022	$249,081	−$4,941	−1.9%
Positions	103.6	110.2	110.3	0.1	0.1%

[a] Includes amounts transferred to the Chancellor's Office of the California Community Colleges for postsecondary vocational education programs.

[b] Includes reimbursements from the Employment Development Department for federal Job Training Partnership Act programs.

4. Vocational Education Programs

Table 24 summarizes funding in the prior, current, and budget years for school-based vocational education programs and Regional Occupational Centers and Programs.

Table 24 shows that the budget proposes a total expenditure of $249 million for state operations and local assistance in vocational education programs during 1984–85. Funding for these programs will be discussed in greater detail in the following analyses of school-based vocational education programs and Regional Occupational Centers and Programs.

a. School-Based Vocational Education (Items 6100-166-890, 6100-166-001, and 6100-118-001)

We recommend approval.

The vocational education office in the Department of Education assists local education agencies in providing vocational training and guidance to approximately 1.2 million secondary students. School-based vocational education programs are provided through the regular secondary school curriculum.

Table 24 shows the level of funding for school-based vocational education programs in the prior, current, and budget years. Local assistance funding is derived almost entirely from federal funds. General Fund support is budgeted to assist vocational education student organizations, and to provide the required match for federal funds received for administration of the Vocational Education Act (VEA) of 1976.

The budget proposes $2.7 million for state operations in vocational education, a decrease of $367,000, or 12.1 percent, from estimated expenditures in the current year. This decrease is misleading because current-year expenditures include $500,000 for state support of the vocational education student organizations, which appears in the budget for 1984–85 as local assistance.

The budget also proposes $57.2 million from the Federal Trust Fund for local assistance in 1984–85. This is a decrease of 9.7 percent from estimated expenditures in the current year. This reduction reflects funds which were unexpended in 1982–83 and carried over to the current year, and thus are not a part of the baseline funding level for this program.

State Support for Vocational Education Student Organizations (Item 6100-118-001). There are five vocational education student organizations in California. Chapter 282, Statutes of 1979 (AB 8), appropriated $500,000 annually to the State Department of Education for support of these student organizations. Because this appropriation terminates, effective June 30, 1984, the budget proposes that the $500,000 for support of the student organizations be appropriated in the Budget Act.

The department uses these funds for numerous activities, including statewide conferences for officers of the student organizations, in-service training for teachers who act as local chapter advisors, preservice training for students who intend to become vocational education teachers, and the development of instructional materials and handbooks. Because the budget proposes to continue the legislatively-authorized level of funding for this program, we recommend approval of the amount requested.

Federal Job Training Partnership Act (Item 6100-166-001). The SDE budget includes 13.3 million in reimbursements from the Employment Development Department (EDD) in 1984–85. These reimbursements are from the federal Job Training Partnership Act, which replaces the federal

DEPARTMENT OF EDUCATION—Continued

CETA program. (For more information on the new federal act, please see our analysis of the budget proposed for EDD.)

b. Regional Occupational Centers and Programs (Item 6100-101-001)

We recommend approval.

Regional Occupational Centers and Programs (ROC/Ps) provide vocational training to high school pupils and adults. There are 67 ROC/Ps in the state. Of these, 41 are operated by county superintendents of schools and 26 are operated by districts (mostly through joint powers agreements). In 1982–83, they enrolled 91,456 pupils in average daily attendance (ADA), consisting of 61,891 high school ADA and 29,565 adult ADA.

Courses cover a wide range of job-related training. Training is conducted in facilities on high school sites, centers, or business sites. High school pupils are provided transportation between their school and the ROC/P facility.

The budget proposes an appropriation of $168 million for ROC/Ps in 1984–85, an increase of $4.9 million, or 3.0 percent, over estimated current-year expenditures. This increase is due to the proposed COLA. The current-year estimate assumes enactment of the $863,000 deficiency appropriation proposed for ROC/Ps.

No Funding for Enrollment Growth. The budget proposal provides no funding for enrollment growth in ROC/Ps during 1984–85. We have no analytical basis for recommending any specific level of growth in these programs. Ultimately, the amount of growth funded by the state should reflect legislative priorities.

We estimate that each 1 percent increase in enrollment would cause an expenditure increase of approximately $1.5 million.

Governor's Veto of 9th and 10th Grade Funding. The Legislature appropriated $170.7 million for ROC/Ps in the Budget Act of 1983, including $15.2 million for a 10 percent increase in enrollment growth. The Governor vetoed $12.6 million to eliminate funding for 9th and 10th grade pupils, on the basis that the job-specific training provided by ROC/Ps is most beneficial to 11th and 12th grade students who are ready to enter the job market.

Because there is no statutory authority which prohibits ROC/Ps from claiming ADA for the attendance of 9th and 10th grade pupils in ROC/Ps, the Superintendent of Public Instruction determined that such ADA would be eligible for state funding. Rather than allow an unfunded deficiency in the program to arise as a result of the veto, however, the Superintendent exercised his administrative authority to lower the funded enrollment growth percentage, reducing it from 10 percent to a new level of 1.1 percent. The effect of the veto, then, was to reduce enrollment growth rather than eliminate the enrollment of 9th and 10th grade pupils.

The budget proposes budget control language to prohibit state funding in 1984–85 for the enrollment of 9th and 10th grade pupils.

Report on 9th and 10th Grade Enrollment in ROC/Ps. In response to language in the *Supplemental Report to the Budget Act of 1983,* the State Department of Education submitted a report on the impact of eliminating funding for 9th and 10th grade pupils in ROC/Ps. The department found that, in 1982–83, 9th and 10th grade enrollment was 7.8 percent of total enrollment, and estimated that the state apportioned $7.1 million for these pupils. This estimate, however, is based on the assumption that 9th and 10th grade pupils were enrolled for fewer hours per day, on the average, than 11th and 12th grade pupils. We know of no data to support this assumption.

The department's report concluded that:

- Because SB 813 requires ROC/Ps to give priority to pupils 16 to 18 years of age, ROC/Ps are developing policies to eliminate most 9th and 10th grade students from ROC/P classes; and
- Most vocational courses suitable for 9th and 10th grade students focus on the beginning of the occupational training sequence. Such courses generally are more appropriate for the school-based vocational education program than the regional occupational program. In the case of small high schools, however, it may be more cost-effective for an ROC/P to offer beginning courses.

Implementation of Regulations for Approving Vocational Training Courses. The *Supplemental Report to the 1983 Budget Act* directed the State Board of Education to adopt regulations, by December 1, 1983, which establish new criteria for the approval of vocational training courses in ROC/Ps and Adult Education programs. These regulations have not been adopted, but the department indicates that it is in the process of developing new criteria and will present them to the board in March or April.

The department requested 8.6 positions to implement new course approval procedures. This request is not funded in the budget. The need for additional positions for this purpose will depend on the regulations adopted by the board, the procedures required to enforce the new criteria, and what priority this effort receives among the department's administrative tasks.

5. Compensatory Education Programs

This section analyzes state- and federally-funded programs which provide compensatory education services. These programs assist students who are educationally disadvantaged due to proverty, language barriers, or cultural differences, or who experience learning difficulties in specific subject areas. Compensatory education programs include Economic Impact Aid, federal ECIA Chapter 1, the Transition Program for Refugee Children, Indian education, and the Miller-Unruh Reading Program. Table 25 displays local assistance expenditures from the General Fund for these programs in the prior, current, and budget years.

Table 25
Funding for Compensatory Education Programs
Local Assistance
1982–83 through 1984–85
(in thousands)

	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Change Amount*	*Change Percent*
General Fund:					
Economic Impact Aid	$171,472	$182,041	$187,502	$5,461	3.0%
Miller-Unruh Reading Program	16,182	17,153	17,668	515	3.0
Indian education	1,068	1,132	1,166	34	3.0
Subtotals, General Fund	$188,722	$200,326	$206,336	$6,010	3.0%
Federal funds:					
ECIA Chapter 1	$258,015	$360,855	$360,855	—	—
Transition Program for Refugee Children	7,514	5,565	5,565	—	—
Subtotals, Federal funds	$265,529	$366,420	$366,420	—	—
Totals	$454,251	$566,746	$572,756	$6,010	1.1%

DEPARTMENT OF EDUCATION—Continued

a. Economic Impact Aid (Item 6100-121-001)

We recommend approval.

The state Economic Impact Aid (EIA) program provides funds for (1) the state compensatory education program (EIA-SCE) and (2) bilingual education programs for limited English-proficient pupils (EIA-LEP). The intent of EIA is to provide funds for supplemental educational services, particularly in basic skills, to children who (1) have difficulty in reading, language development, and mathematics and (2) attend schools which (a) are located in high poverty areas or (b) have an excessive number of children with poor academic skills.

Table 25 displays local assistance funding for EIA, which is proposed at $187,502 in 1984–85. This amount includes funds for a 3 percent COLA. Our review indicates that this program is serving its intended purpose and, accordingly, we recommend approval as budgeted.

b. Education Consolidation and Improvement Act—Chapter 1 (Items 6100-136-890 and 6100-141-890)

We recommend approval.

The federally-funded Education Consolidation and Improvement Act (ECIA), Chapter 1, also provides support for compensatory education services to educationally disadvantaged students. Both ECIA Chapter 1 and Economic Impact Aid (EIA) fund a variety of supplemental educational services for children having difficulty mastering basic skills or who attend targeted schools. In addition, a portion of ECIA Chapter 1 funds is designated specifically for educational services to children of migrant workers.

Table 25 displays local assistance funding for Chapter 1, which is proposed at $360,855 in 1984–85. Of this amount, $63.4 million is proposed for the federally-funded migrant education program.

Migrant Education. The migrant education program was established in 1965 to provide supplementary educational services to children of migrant and formerly migrant parents. In the current year, the State Department of Education (SDE) will distribute migrant education funds to school districts, primarily through 13 regional offices which are operated through certain county offices of education. In addition, five school districts, at their request, operate their migrant education program independent of a regional office, and receive their funds directly from the SDE.

The budget reports that 138,000 pupils will be served by the migrant education program in 1983–84.

Typically, school districts use migrant education funds to employ additonal teachers and aides to work directly with migrant pupils. Districts also supply a variety of educationally-related services, such as counseling, health care, and college preparatory programs. Further, the regions and districts use the Migrant Student Record Transfer System (MSRTS) to assure that migrant students' files follow them wherever they move within the United States.

As shown in Table 26, California expects to receive approximately $65.2

million in federal migrant education funds in 1984–85. The budget proposes to allocate $63.4 million of this amount for local assistance to regions and districts—the same amount as in 1983–84. The balance—$1.7 million is proposed for state operations.

Table 26
Federal ECIA Chapter 1 Migrant Education Funds
1982–83 through 1984–85
(in thousands)

	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Change Amount*	*Change Percent*
State operations	$1,990	$1,708	$1,713	$5	0.3%
Local assistance	61,969	63,442	63,442	—	—
Totals	$63,959	$65,150	$65,155	$5	—

Our review indicates that the programs supported by ECIA Chapter 1 funds are serving their intended purpose and, accordingly, we recommend approval as budgeted.

c. Transition Program for Refugee Children (Item 6100-176-890)

We recommend approval.

The federally-funded Transition Program for Refugee Children (TPRC), authorized by the Refugee Act of 1980, supersedes and expands the Indochina Refugee Children Assistance Program. The TPRC provides local assistance to school districts which have experienced heavy enrollments of refugee children—primarily Cuban, Haitian, and Indochinese.

School districts use their TPRC funds to provide a variety of education and educationally-related services including:

- bilingual education/English language development,
- community and school orientation,
- development of curriculum and materials,
- liaison activities between families, school personnel, and refugee assistance agencies, and
- testing, assessment, and placement of incoming pupils.

The TPRC grants are allocated to school districts through a formula that is based on the number of eligible pupils, their grade levels, and the number of years they have been in the United States. The State Department of Education estimates that in 1983–84, the TPRC will serve 35,923 refugee pupils in 279 California school districts. The SDE allocates one professional position for monitoring school district census procedures, transmitting TPRC entitlements, and providing technical assistance through workshops and statewide mailings.

Table 27
Transition Program for Refugee Children
1982–83 through 1984–85
(in thousands)

	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Change Amount*	*Change Percent*
State Administration	$74	$78	$79	$1	1.3%
Local Assistance	7,514	5,565	5,565	—	—
Totals	$7,588	$5,643	$5,644	$1	—

DEPARTMENT OF EDUCATION—Continued

Table 27 displays funding for TPRC in the prior, current, and budget years. As the table indicates the budget anticipates that TPRC funding will be $5.6 million in 1984–85—approximately the same amount that is available in 1983–84.

d. Indian Education (Items 6100-131-001 and 6100-151-001)

We recommend approval.

The Office of American Indian Education in the Department of Education administers two separate projects intended to improve the academic performance and self-concept of Native American students—SB 2264/74 Indian Education centers and AB 1544/77 Native American Indian Education program. The office consists of two consultants and one clerical position in the current year.

Table 28 shows state administration and local assistance expenditures proposed for the two state Indian Education projects in 1984–85. As the table indicates, the budget proposes a total of $1,347,000 for the two projects in the budget year.

Table 28
State Expenditures for Indian Education
1982–83 through 1984–85
(in thousands)

	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Change* Amount	*Change* Percent
State Operations	$151	$174	$181	$7	4.0%
Local Assistance:					
AB 1544 Native American Indian Education Program	$318	$337	$347	$10	3.0%
SB 2264 American Indian Education Centers	750	795	819	24	3.0
Subtotals	$1,068	$1,132	$1,166	$34	3.0%
Totals	$1,219	$1,306	$1,347	$41	3.1%

Indian Education Centers (Item 6100-151-001). Twelve Indian education centers serve as regional educational resource centers to Indian students, parents, and schools. The centers are operated by private nonprofit organizations which report to a community-elected board of directors. Each center typically offers a variety of services, funded through several sources. In their role as education centers, the centers: (1) provide tutorial assistance and counseling for Indian pupils, (2) provide Native American related curriculum development for school districts, and (3) serve as a cultural center and library.

Native American Indian Education Program (Item 6100-131-001). The Native American Indian Education program seeks to improve the educational accomplishments of kindergarten through fourth grade Native American pupils in selected rural school districts. The intent of this program is to develop and test educational models which increase competence in reading and mathematics. In 1982–83, ten rural school districts received funds under this program for 23 schools, serving 1,168 pupils. These schools received an average grant of $31,000 each.

Our analysis indicates that these two programs are serving their intended purpose and, therefore, we recommend approval as budgeted.

e. Miller-Unruh Reading Program (Item 6100-126-001)

We recommend approval.

The Miller-Unruh Reading program is designed to upgrade the reading achievement of low-performing K–6 pupils by funding reading specialists for participating schools. In the current year, the state will allocate approximately $18,000 per full-time reading specialist. School districts must pay for the remainder of the specialist's salary.

We estimate that in 1982–83 (the most recent year for which data are available), the amount of funding provided for each reading specialist equalled 73 percent of the average salary paid to elementary school teachers statewide.

Table 29 shows Miller-Unruh program participation and funding. The budget proposes $17.7 million from the General Fund for the program in 1984–85, an increase of 3.0 percent (COLA) over the current-year level.

Our analysis indicates that the Miller-Unruh program is serving its intended purpose, and therefore we recommend that the amount budgeted be approved.

Table 29

Miller-Unruh Reading Program Participation and Funding 1982–83 through 1984–85

	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Change Amount*	*Change Percent*
Appropriation (thousands)	$16,182	$17,153	$17,668	$515	3.0%
Number of districts	163	160	160	—	—
Number of teachers	958	958	958	—	—
Average amount paid per full-year position	$16,891	$17,905	$18,443	$538	3.0%

6. Other Education Programs

This section analyzes those specialized education programs which do not fit into any of the five categories discussed above. These programs include Gifted and Talented Education; the Mathematics, Engineering, Science Achievement (MESA) program; driver training; and the ECIA Chapter 2 federal block grant.

a. Gifted and Talented Education (Item 6100-124-001)

We recommend approval.

The Gifted and Talented Education (GATE) program was established by Ch 774/79 to supersede the Mentally Gifted Minor program. Pupils are identified as gifted or talented based on district criteria and state guidelines. Typically, this local selection process is complex and may utilize standardized test scores, teacher or parent referrals, course grades, and a review by a school psychologist.

The design of each district's GATE program is determined locally, within state guidelines. These guidelines allow the following types of approaches to be used: (1) independent study, (2) special day classes, (3) part-time or cluster groupings of GATE students, (4) enrichment activities, (5) acceleration activities, and (6) higher education opportunities. In 1982–83, GATE provided funds to 433 school districts for extraordinary educational programs serving approximately 200,000 high ability and/or talented students. Only those districts which operated a Mentally Gifted Minor program during 1978–79 are eligible to receive GATE funds, al-

DEPARTMENT OF EDUCATION—Continued

though a limited number of additional districts have been admitted to the program to replace districts which have withdrawn from GATE.

Table 30 shows expenditures and funding for the GATE program in the prior, current and budget years. As shown in the table, the budget proposes a General Fund appropriation of $18.4 million for GATE local assistance in 1984–85. This amount reflects a 3 percent COLA increase.

Our analysis indicates that the budget proposal is reasonable and, accordingly, we recommend approval.

Table 30
Gifted and Talented Education Program Funding
1982–83 through 1984–85
General Fund
(in thousands)

	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Change Amount*	*Change Percent*
State operations	$143	$189	$197	$8	4.2%
Local assistance	16,981	17,848	18,383	535	3.0
Totals	$17,124	$18,037	$18,580	$543	3.0%

Independent Evaluation. The legislation which established the GATE program required a four-year independent evaluation of the program. This evaluation is to focus on the program's benefits, costs, consequences and impact, and a final report on the evaluation is due on January 5, 1984. At the time this *Analysis* was prepared, the final evaluation report had not been submitted. If it is submitted prior to budget hearings, we will review the report and prepare comments and recommendations for the Legislature as appropriate.

b. Mathematics, Engineering, Science Achievement (MESA) Program (Item 6100-192-001)

The MESA program is designed to increase the enrollment of underrepresented ethnic minorities in university and college programs related to mathematics, engineering, and the physical sciences. The program provides tutoring, counseling, study groups, and summer school enrichment for secondary school students who show an aptitude in mathematics and science. MESA is funded jointly by the state and the private sector.

The state's contribution currently is provided through the budget appropriation for the State Department of Education. MESA is coordinated by a central office located in the Lawrence Hall of Science in Berkeley.

The budget proposes $1.3 million from the General Fund for MESA in 1984–85, the same amount as the current-year appropriation. The budget also proposes to continue the requirement that MESA obtain matching funds on a 2:1 ratio of state to private funds. We recommend approval of the amount requested.

Potential Duplication of Effort

We recommend that the Legislature adopt supplemental report language requiring the Department of Education to report on the potential advantages and disadvantages of consolidating the MESA program, the University and College Opportunities program, and the California Academic Partnership program, because they appear to involve a duplication of effort.

The Legislature has authorized two programs—the University and College Opportunities (UCO) program and the California Academic Partnership program—which are similar in purpose to the MESA program. Each of these programs is designed to increase the enrollment of under-represented minorities in postsecondary institutions, primarily in mathematics, science, and other technology-based fields. The means used to achieve this goal under these three programs, moreover, are similar. Counseling, tutoring, and coordination with postsecondary education institutions, for example, are common characteristics among the three programs.

The UCO program, authorized by Ch 1298/82, is administered by the State Department of Education. Participating districts are required to support the program with existing local or categorical funds, at no additional cost to the state.

The California Academic Partnership program was authorized by Ch 498/83 (SB 813). It is to be administered by the California State University. The authorizing legislation contained an appropriation of approximately $1 million for the program in 1984–85, but the Governor vetoed these funds. The budget proposes no funding for the academic partnership program in 1984–85.

The similar goals of, and methods used by, the MESA, UCO, and Academic Partnership programs suggest the possibility that there may be an unnecessary duplication of effort and/or inefficient use of resources. To explore this possibility, we recommend that the Legislature adopt the following supplemental report language requiring the Department of Education to report on the feasibility and desirability of consolidating the three programs:

> "The Department of Education shall, by December 1, 1984, report to the Joint Legislative Budget Committee and the fiscal committees on the feasibility and desirability of consolidating the MESA, University and College Opportunity, and California Academic Partnership programs."

c. Driver Training (Item 6100-171-178)

The Department of Education administers a driver training program which authorizes districts to provide driver education through both a laboratory component (behind-the-wheel training) and a classroom component. Local school districts which offer the laboratory driver training phase are reimbursed during any given fiscal year for their actual costs in the prior fiscal year, up to a maximum amount per student specified by law. For nonhandicapped students, current law limits state reimbursement to the lesser of $60 per pupil, or actual costs. For handicapped students, the state reimbursement is limited to $200 per pupil. The state also reimburses districts which have total costs in excess of $60 per regular student for 75 percent of their actual costs for replacing vehicles or simulators used for driver training.

Funding

Table 31 displays the funding levels for the driver training program for the prior, current, and budget years.

DEPARTMENT OF EDUCATION—Continued

Table 31
Allocations for Driver Training
1982–83 through 1984–85
(in thousands)

Driver Training	*Actual 1982–83*	*Estimated 1983–84*	*Proposed 1984–85*	*Change*
State Operations	$95	$206	$155	−$51
Local Assistance	17,844	17,336	17,336	—
Totals	$17,939	$17,542	$17,491	−$51
Driver Training Penalty Assessment Fund	—	*$101*	*$17,440*	*$17,339*
Motor Vehicle Account, State Transportation Fund	*$17,844*	*17,336*	—	*−17,336*
General Fund	*95*	*17*	*18*	*1*
Federal Funds	—	*18*	*18*	—
Reimbursements	—	*70*	*15*	*−55*

COLA Adjustment. As discussed in the overview, SB 813 appropriated $94.4 million to provide, in combination with amounts appropriated in the 1983 Budget Act, an 8 percent cost-of-living adjustment (COLA) for special education programs and a 6 percent COLA to "all other categorical programs." The act did not, however, change the existing statutory maximum reimbursement rates for driver training. In interpreting SB 813, the State Department of Education determined that, notwithstanding the statutory maximums, the act's provision of a 6 percent COLA for categorical programs authorizes school districts to claim reimbursements of up to $64 per regular pupil and up to $212 per handicapped pupil *for 1983–84 only.* Funding for the 6 percent increase in the maximum reimbursement rates is to come from any surplus in the 1983 Budget Act appropriation for driver training, rather than from the funds appropriated in SB 813 for COLAs to categorical programs. According to the department's interpretation of SB 813, the maximum reimbursement rate for driver education will revert to the statutory levels of $60 and $200 per pupil in 1984–85.

Driver Training Penalty Assessment Fund. Prior to 1982–83, local assistance for the driver training program was funded from the Driver Training Penalty Assessment Fund (DTPAF), which receives its revenues from traffic citations. This fund was created exclusively for the purpose of supporting the driver training program. Since 1981–82, any unencumbered balances in this fund at year-end have been transferred to the General Fund, pursuant to Budget Act control language.

The 1982 and 1983 Budget Acts changed the source of funding for Driver Training local assistance from the DTPAF to the Motor Vehicle Account of the State Transportation Fund. This was done to free-up additional balances in the DTPAF for transfer to the General Fund.

The budget proposes to support driver training in 1984–85 from its traditional funding source—the Driver Training Penalty Assessment Fund. We find that the DTPAF is an appropriate funding source for the program because (1) the fund was created by the Legislature to support driver training and (2) we do not anticipate a shortfall in the General Fund during the budget year which might necessitate funding the program from the Motor Vehicle Account.

Driver Training Overbudgeting $2,004,000

We recommend a reduction of ~~$3,630,000 in~~ the amount budgeted for driver training local assistance, for a potential equivalent General Fund revenue increase, to reflect declining enrollment in the program. (Reduce Item 6100-171-178 by ~~$3,630,000~~).

$2,004,000

Enrollment in school district driver training programs for nonhandicapped students has decreased from 327,482 in 1977–78 to 219,206 in 1982–83. This decrease has resulted from (1) the decline in high school enrollment from 1,341,448 to 1,240,776 during the same period and (2) a decrease in the percentage of high school students completing driver training, from 24 percent of total enrollment in grades 9 through 12 in 1977–78 to 18 percent of comparable enrollment in 1982–83.

As a result of declining enrollments in the driver training program, the Department of Education has indicated that apportionments to local school districts in 1983–84 will be $15,730,000 (including approximately $570,000 for the 6 percent increase in maximum reimbursements that was granted administratively by the department). This amount is $1,606,000 less than the $17,336,000 appropriated to the State School Fund for local assistance in the current year. Under existing law, the full amount of this unexpended balance will remain ~~in the State School Fund and be available for allocation in 1984–85.~~ in the Motor Vehicle Account

This program provides reimbursement for costs in the year following the year in which these costs were incurred. Consequently, local school districts will receive reimbursements in 1984–85 for driver training expenses incurred during the 1983–84 school year. The Population Research Unit of the Department of Finance estimates that enrollment in California high schools will have increased by less than one-fourth of 1 percent (0.16 percent) in 1983–84, to 1,242,700 students. This factor, combined with the general decrease in the percentage of high school students completing driver training noted earlier, makes it extremely unlikely that driver training enrollments in 1983–84 will be more than 1 percent above the 1982–83 level. Assuming a one percent increase in enrollment and allowing for reimbursement at the statutory maximum levels, we estimate a maximum funding need for the driver training program in 1984–85 of ~~$13,706,000—~~or ~~$3,630,000 le~~ss that the amount proposed in the budget. $15,332,000

2,004,000 Accordingly, we recommend that the amount budgeted for driver training be reduced by ~~$3,630,000~~. Assuming the Legislature approves Control Section 24.10 in the Budget Bill (discussed below), which transfers all unencumbered balances of the DTPAF to the General Fund on June 30, 1985, the adoption of this recommendation will result in a General Fund revenue increase of ~~$3,630,000~~ in the budget year.

$2,004,000

Transfer to the General Fund—Control Section 24.10

We recommend approval.

Control Section 24.10 of the Budget Bill transfers to the General Fund the unencumbered balance in the Driver Training Penalty Assessment Fund on June 30, 1985. This amount represents the surplus in the DTPAF in excess of the amount necessary to fund the Driver Training Program and related programs during the budget year. According to the budget, this provision would result in a General Fund increase of $13.9 million on June 30, 1985. This amount would be increased by the amount of any reduction to the appropriation for driver training in the budget year.

Control Section 24.10 would continue current legislative policy and on that basis, we recommend that it be approved.

Driver Training Programs' Excess Costs

The Driver Training program currently is funded through a system under which the state reimburses local school districts in one year for the actual costs they incur in the prior year, up to a maximum specified by law.

DEPARTMENT OF EDUCATION—Continued

From 1973–74 through 1982–83, the maximum reimbursement was $60 per pupil for regular students, and $200 per pupil for handicapped students. As noted above, the State Department of Education administratively increased these maximum per-pupil entitlements for driver training in the current year by 6 percent, to $64 and $212, respectively.

For several years, the state reimbursement provided to districts has not been sufficient to fund school districts' full costs of operating driver training programs. In 1979–80, the average costs for regular and handicapped driver training were $107 and $235 per pupil, respectively, in contrast to the $60 and $200 per pupil reimbursement limits specified by law.

Because of increases in the number of districts offering competency-based driver training programs for nonhandicapped students (discussed below), however, the statewide, average per-pupil cost of this program has fallen. Based on costs reported by districts to the Department of Education, the average per-pupil cost of driver training for regular students was $91 during 1981–82, and $80 during 1982–83. As more districts adopt competency-based programs in future years, we expect a continuing reduction in average per-pupil program costs. Average costs for driver training for handicapped students, however, have increased to $247 per pupil in 1982–83.

In 1983, the Legislature adopted Senate Bill 335, which would have increased the maximum reimbursement for regular students from $60 to $70. This bill, however, was vetoed by the Governor.

Competency-Based Driver Training Programs

Traditional driver training programs are based on the premise that every student must receive a specified minimum amount of behind-the-wheel instruction and on-street observation time, without regard to individual differences in driving skill. Under current law, therefore, every student must receive a minimum of six hours of on-street, behind-the-wheel instruction (or a comparable amount of time using a simulator or off-street driving range) in order for a district to receive state funds for driver training.

Of the 377 school districts that offer driving training programs, 248 (66 percent) have been granted waivers from requirements contained in current regulations so that they can provide competency-based driver training programs. Competency-based programs are based on the premise that students learn at varying rates and enter the driver training program with differing amounts of experience and skill. The objective of this approach is to train all students to a common level of performance, based on locally established criteria, without regard to the amount of instructional time required for each student.

Because many students in competency-based programs receive fewer hours of training, school districts have reported significant cost savings from these programs. The Department of Education reports that in 1981–82, students in competency-based programs received an average of 2.1 to 3.4 hours of behind-the-wheel training—approximately one-half of the amount of training required in traditional driver training programs. In some districts, students have completed the driver training program with less than one hour of behind-the-wheel training and evaluation.

The Superintendent of Public Instruction has issued nonbinding guidelines for districts which are granted waivers to follow in operating competency-based driver training programs. These guidelines specify driving competencies which are to be included in each program and provide that no student should receive less than 25 percent of the instructional time specified for traditional driver training programs. Under current law, a district must submit a description of its proposed competency-based program when applying for a waiver of traditional program requirements. The Department of Education has indicated, however, that without statutory authority, it cannot issue regulations specifying program *requirements* for competency-based driver training.

Federal Study of Driver Training

A federal study of driver education and training, funded by the National Highway Traffic Safety Administration, recently was completed in DeKalb County, Georgia. The study analyzed the effectiveness of a particular type of program delivery system—the "Safe Performance Curriculum." This program combined the use of a multiple-car driving range, simulators, and behind-the-wheel training in traffic. The curriculum consists of considerably more hours of training than have been required in the various types of programs offered in California. The driving records of students were monitored for three to five years following their participation in the program.

Preliminary findings from the study indicate that driver training did *not* result in a significant decrease in deaths or injuries from auto accidents. The findings also indicate, however, that driver training participants had significantly fewer traffic violations than nonparticipants. Completion of the study's final report is anticipated in February 1984. We will review this report and prepare comments and recommendations for the Legislature as appropriate.

d. Federal Block Grant—ECIA Chapter 2 (Item 6100-101-890)

In 1982–83, the federal government consolidated 31 assistance grant programs into a single block grant. The authorizing legislation for the block grant—the Education Consolidation and Improvement Act, Chapter 2—requires that (1) at least 80 percent of the block grant be allocated as local assistance, (2) no more than 20 percent be retained for state operations, and (3) an advisory committee be formed to advise the state on the initial allocation of funds for local assistance and state operations. Federal law prohibits the state from specifying how the local assistance funds will be spent by the districts.

Table 32 shows state operations and local assistance funding for the federal block grant in the prior, current, and budget years.

Table 32
Federal Block Grant Funding
1982–83 through 1984–85
(in thousands)

	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Change Amount*	*Change Percent*
State operations	$5,222	$8,118	$7,955	−$163	−2.0%
Local assistance	29,220	36,367	35,718	−649	−1.8
Totals	$34,442	$44,485	$43,673	−$812	−1.8%

The budget proposes $8 million for state operations and $35.7 million for local assistance from federal block grant funding available for 1984–85. The total of $43.7 million represents a decrease of $812,000, or 1.8 percent, from

DEPARTMENT OF EDUCATION—Continued

estimated current-year expenditures. This decrease reflects the fact that estimated current-year expenditures include $2.1 million in funds that were not expended during 1982–83 and were carried over to 1983–84. Thus, the budget proposal represents an increase of $1.3 million, or 3 percent, over the current-year *baseline* federal grant.

Expenditure Plan Needed for Federal Block Grant

We withhold recommendation on the proposed allocations from the federal block grant, pending submission by the Department of Education of an expenditure plan.

The State Department of Education indicates that block grant funds allocated for state administration, or "state purposes," will be used primarily for projects such as research and evaluation, curriculum development, and staff development. In addition, the department intends to allocate up to $1.8 million for "priority projects" designated by the Superintendent of Public Instruction. The superintendent, however, has not identified these projects for the budget year. In fact, he has not even identified these projects for the *current* year. The Legislature needs this information if it is to conduct a meaningful review of the proposed use of federal block grant funds. We have therefore requested that the department submit an expenditure plan for the funds allocated for the "priority projects," and we withhold recommendation on this item pending receipt of the department's plan.

C. STATE AND COURT MANDATES (Items 9680-101-001 and 6100-114-001)

Under the provisions of current law, the state reimburses school districts for the cost of local programs which are mandated by the state and the courts. These reimbursements are funded from the General Fund. Table 33 shows expenditures for state and court mandate reimbursements in the prior, current, and budget years.

Table 33
Expenditures for State and Court Mandates
1982–83 through 1984–85
(in thousands)

	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Change Amount*	*Change Percent*
State Mandates:					
Budget Act appropriation	$14,294	$16,268	$16,109	–$159	–1.0%
Prior claims bills	9,548	33	—	–33	–100.0
Subtotals	$23,842	$16,301	$16,109	–$192	–1.2%
Court Mandates:					
Budget Act appropriation	$128,726	$138,816	$154,416	$15,600	11.2%
Prior claims bills	11,728	25,690	—	–25,690	–100.0
Subtotals	$140,454	$164,506	$154,416	–$10,090	–6.1%
Totals	$164,296	$180,807	$170,525	–$10,282	–5.7%

As shown in Table 33, the budget proposes a decrease of $192,000, or 1.2 percent, in state mandate reimbursements and a decrease of $10.1 million, or 6.1 percent, in court mandate reimbursements from the levels authorized for the current year. Thus, total funding for state and court mandates is proposed to decrease by $10.3 million, or 5.7 percent.

In the case of reimbursements for court mandate, the apparent decrease is misleading. It reflects the fact that current-year estimated expenditures include funds provided in deficiency claims bills for costs incurred in prior years. To the extent that the Legislature enacts claims bills in 1984–85 to fund prior year claims, there may be no decrease in costs for court mandates between the current and budget years.

A more detailed explanation of the funding for state and court mandates is provided below.

1. State Mandates (Item 9680-101-001)

Table 34 shows General Fund expenditures for reimbursement of state education mandates in 1984–85. A total of $16.1 million is proposed for this purpose in the budget year—a decrease of $159,000, or 1.0 percent, below the adjusted 1983–84 level (exclusive of funds provided in claims bills). This slight decrease primarily reflects an anticipated reduction in the amount of claims for reimbursement of costs resulting from Chapter 965/77 (Student Disciplinary Procedures). In addition, based on the Controller's determination that the provisions of Ch 1216/75 (School Employee Dismissal Evaluations) do not, in fact, create a reimbursable mandate, the budget proposes not to continue the $18,000 in funding which was provided for this legislation in the current year.

Funding for state education mandates in the current and budget years is contained in Item 9680-101-001, which is the appropriation item for all state mandate reimbursements.

Table 34
State Mandates
1982–83 through 1984–85
(in thousands)

	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Change Amount*	*Change Percent*
Chapter 593/75 Jury Duty for Teachers	$1,452	—[a]	—[a]	—	—
Chapter 961/75 Collective Bargaining	8,794	$9,986	$9,986	—	—
Chapter 1216/75 School Employee Dismissal Evaluations	17	18	—[b]	−$18	−100.0%
Chapter 973/77 School Administrators Transferred to Teaching	1	1	1	—	—
Chapter 965/77 Pupil Disciplinary Procedures	244	623	482	−141	−22.6
Chapter 1253/75 Pupil Disciplinary Procedures	1	1	1	—	—
Chapter 894/77 Pupil Basic Skills—Notification and Conferences	1,746	3,333	3,333	—	—
Chapter 1176/77 Immunization Records	943	1,240	1,240	—	—
Chapter 1347/80 Scoliosis Screening	486	527	527	—	—
Chapter 472/82 Rubella Immunization Records	610	539	539	—	—
Subtotals	$14,294	$16,268	$16,109	−$159	−1.0%
Prior claims bills	9,548	33	—	−33	−100.0
Totals	$23,842	$16,301	$16,109	−$192	−1.2%

[a] Reimbursement funding terminated by Ch 1586/82.
[b] Reimbursement funding proposed to be terminated by Governor's Budget.

2. Court Mandates (Item 6100-114-001)

Prior to the passage of Proposition 13, school districts were authorized to fund the costs of final court orders by increasing local property tax rates. Approval of Proposition 13 by the voters at the June 1978 election halted

DEPARTMENT OF EDUCATION—Continued

this practice by capping the property tax rate at 1 percent. In 1978–79 and 1979–80—pursuant to post-Proposition 13 fiscal relief legislation—court mandates affecting school districts were funded by the state through adjustments to the qualifying districts' revenue limits. Through 1979–80, the state was automatically liable for all new, court-mandated costs imposed on school districts. This policy was changed in 1981.

Current Law. Chapter 100, Statutes of 1981 (AB 777), removed funding for court mandates from general aid in school apportionments. Such funding is now provided in the annual Budget Act. Under current law, the Controller must review each claim to determine if the costs claimed are reasonable. If the amounts claimed by districts and approved by the Controller are less than the appropriation made in the Budget Act, the reimbursement will be prorated among claiming districts. The Board of Control, however, is authorized to review any unfunded claims and seek funding for them in a subsequent claims bill.

Funding. Table 35 displays the actual funding and potential future costs for court mandates.

Table 35

Court Mandates:
Funding for Claims Approved by the Controller and Additional Claims Eligible for Reimbursement
1981–82 through 1984–85

Approved Claims	*Actual Claims for 1981–82*	*Actual Claims for 1982–83*	*Estimated Claims for 1983–84*	*Estimated Claims for 1984–85*
Desegregation Claims:				
Los Angeles Unified	$120,864,924	$124,455,997	$140,774,544	$140,774,544
San Diego City Unified	22,471,333	20,451,646	24,284,189	24,284,189
San Bernardino Unified	2,746,396	3,055,457	3,303,974	3,303,974
Stockton Unified	8,333,782	3,462,635[a]	3,462,635[b]	3,462,635[b]
San Francisco Unified	—	—	3,507,160	9,017,000[b, c]
Total approved claims	$154,416,435	$151,425,735	$175,332,502	$180,842,342
Budget Act appropriation	128,726,000	128,726,000	138,816,000	154,416,000[d]
Deficit	($25,690,435)	($22,699,735)	($36,516,502)	($26,426,342)
Claims bill appropriation in 1983–1984	−$25,690,435	—	—	—
Cumulative remaining deficit subject to Board of Control Action	—	$22,699,735	$59,216,237	$85,642,579

[a] Approval pending.
[b] Preliminary estimate.
[c] Funding not included in Governor's Budget.
[d] Proposed in Item 6100-114-001.

Since 1981–82, all of the funds appropriated for the reimbursement of court mandates have been allocated to four school districts for costs resulting from court-ordered desegregation activities.

The 1983–84 budget proposes $154.4 million to reimburse districts for complying with court mandates in 1984–85—an increase of $15.6 million, or 11.2 percent, above the 1983 Budget Act appropriation.

The Legislature provided $7,950,000 in the 1983–84 Budget Bill to provide reimbursement for the costs of a fifth court-ordered desegregation program, in the San Francisco Unified School District. The Governor, however, vetoed these funds on the basis that the district's claim for reimbursement had not followed the Board of Control claims process required by law. Under this process, the initial funding for reimbursement of new court mandates is to be provided in a claims bill, based on review and approval of the claims by the State Board of Control. San Francisco Unified has since revised the implementation schedule for its desegregation program, causing a reduction in its claim for 1983–84 costs to $3.5 million. While this claim has been reviewed and approved by the Board of Control, the Legislature has not yet provided funding in a claims bill for San Francisco's desegregation program. On this basis the budget proposes no funding for this purpose in 1984–85.

As Table 35 indicates, the $154.4 million proposed in the budget for 1984–85 claims is not sufficient to fund either unfunded claims remaining from prior years or the amount of claims likely to be received in 1984–85. The table shows that a deficit (that is, unpaid claims approved by the Controller) of approximately $59.2 million remains from 1982–83 and 1983–84. These claims are eligible for reimbursement through the Board of Control process. Furthermore, if the Board of Control approves the full amount of San Francisco Unified School District's estimated claim of $9 million in 1984–85, we estimate that the $154.4 million requested to pay claims will be $26.4 million less than claims actually received in the budget year. This would bring the unfunded deficit to $85.6 million by the end of the budget year.

Underfunding of Court Mandate Reimbursements

We recommend that the Department of Finance comment during budget hearings on the reasons for an apparent $26.4 million underfunding of court mandate reimbursement claims anticipated to be received in the budget year.

As noted, the Governor's Budget proposes $154.4 million to provide reimbursement for the costs of court mandates to the four districts which have received funding for this purpose in the past. This amount, however, is $17.4 million *less* than the amount of court mandate reimbursement claims which are anticipated to be received from these districts in the *current* year.

During last year's deliberations on the 1983 Budget Bill, the Legislature faced a similar underfunding issue in deciding an appropriate level of funding for these four districts' 1983–84 court mandate claims. In the budget conference committee hearings, we recommended that the Legislature augment the Governor's Budget by $20,407,000 in order to provide full funding for the anticipated claims of these districts in 1983–84. The Department of Finance advised against the augmentation, contending that the level of funding provided in the budget was adequate.

Although the Legislature adopted our recommendation, the Governor vetoed the augmentation, resulting in a funding level of $138,816,000. As shown in Table 35, we estimate that the claims of these districts will total $171,825,342 in the current year. After the Governor's veto, therefore, we estimate that the amount appropriated for the court mandate reimbursement claims of these districts in the current year is deficient by $33 million. The Department of Finance was in error and the Legislature's appropriation, while still not adequate, should have been approved by the Governor.

Our review of the Governor's Budget for 1984–85 indicates that he

DEPARTMENT OF EDUCATION—Continued

proposes to continue the practice of underfunding court mandate reimbursement claims. Specifically, we estimate that the budget proposal is deficient by at least $17.4 million with respect to the anticipated claims of the four school districts—and by at least $26.4 million if the anticipated claims of the San Francisco Unified School District are included. Accordingly, we recommend that the Department of Finance comment at the budget hearings on the reasons for their apparent policy of underfunding court mandates.

III. ANCILLARY SUPPORT FOR K–12 EDUCATION

This section analyzes those programs which provide ancillary support for K–12 education activities. These programs, which complement the direct instructional support function, include (1) student transportation programs, (2) school facilities programs (construction and deferred maintenance), and (3) child nutrition programs.

A. TRANSPORTATION

The State Department of Education apportions state aid to school districts and county superintendents of schools for home-to-school transportation programs. Funds are provided through home-to-school transportation allowances and Small School District Transportation Aid. In addition, the department administers the School Bus Driver Instructor Training program.

1. Home-to-School Transportation (Item 6100-111-001)

The Home-to-School Transportation program provides state reimbursement for the approved transportation costs of local school districts or county superintendents of schools, up to a specified "ceiling" amount. Since 1981–82, each district's maximum reimbursement has been limited to the amount of state transportation allowances received by the district in the prior year, increased by any inflation adjustment provided in the Budget Act. In addition, districts have received allowances for bus replacement, based on the original purchase price of the replaced buses, and for excessive expenses relating to unusual, major reconditioning work.

Funding. The budget proposes an appropriation of $254,588,000 for the Home-to-School Transportation program in 1984–85. This amount is $7,316,000, or 3 percent, more than the combined amount approved by the Legislature for the regular and special transportation programs in the current fiscal year. In addition to this amount, the budget proposes to apportion $3 million to assist small school districts in reconditioning or replacing school buses. Table 36 displays the funding levels for transportation aid programs in the prior, current, and budget years.

Table 36

Transportation Aid
1982–83 through 1984–85
(in thousands)

	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Change Amount*	*Change Percent*
Home-to-school transportation	$148,902	$160,592	$254,588 [a]	$7,316 [b]	3.0%
Special transportation	80,260	86,680	—	—	—
Small school district buses	—	1,000	3,000	2,000	200.0
Small school district aid	17,518	18,569	19,126	557	3.0
Totals	$146,680	$266,841	$276,714	$9,873	3.7%

[a] Includes special transportation.
[b] Change from 1983–84 total regular home-to-school and special transportation.

a. SB 813 Changes

Senate Bill 813 (Ch 498/83) and AB 70 (Ch 1302/83) made a number of changes in the Home-to-School Transportation program. These changes, which were described earlier in the overview of SB 813, will become effective in the budget year.

The most important provisions of SB 813 affecting transportation aid programs: (1) revise the method used to calculate transportation allowances, (2) establish a bus replacement fund for small school districts, (3) include special education students in the Home-to-School Transportation program, and (4) require that school districts establish a transportation fund for all state transportation allowances received. These provisions of SB 813 and AB 70 are discussed in greater detail in the overview section of this K-12 analysis.

Calculation of Transportation Allowances. Beginning in 1984-85, school districts which certify that their prior-year approved transportation costs were at least 95 percent of the transportation allowances they received during that fiscal year will receive the same transportation allowance in the current year, increased by the cost-of-living adjustment provided in the Budget Act. If a district certifies that its approved transportation costs were less than 95 percent of the state allowance received for that year, the district will receive an allowance based on the certified percentage plus 5 percent, with the total increased by the Budget Act's cost-of-living adjustment.

Small School District Bus Replacement. Senate Bill 813, as amended by AB 70, appropriated $1 million in 1983-84 for the replacement or reconditioning of school buses for school districts with 2,500 or fewer ADA. In allocating these funds, the law assigns first priority to the replacement of school buses which cannot be reconditioned. Reconditioning of unsafe school buses is the second priority. The third priority is given to the purchase of new buses to expand a district's fleet. The budget proposes $3 million to continue the SB 813 and AB 70 program for small school district bus replacement and reconditioning.

In November 1983, eligible school districts filed applications for bus replacement/reconditioning funds that collectively exceeded by $2.4 million the $1 million appropriated by SB 813 for this program. Because of the limited amount of funds provided and the funding priorities established by SB 813 and the SDE, many eligible districts did not submit applications. More districts are likely to apply for assistance if additional funds are made available in 1984-85.

The Legislature may wish to consider including a matching requirement for districts receiving these funds. Such a requirement would offer two advantages. First, if each district were required to contribute a share of its bus reconditioning or replacement costs, a limited amount of state funds could be used to assist more districts. Second, a matching requirement would provide fiscal incentives for districts to determine which reconditioning or replacement expenditures would provide the most cost-effective solution to their transportation needs.

DEPARTMENT OF EDUCATION—Continued

b. Transportation of Special Education Students

We recommend that the Legislature adopt Budget Bill language providing that the definition of home-to-school transportation shall include transportation to and from related student services required by the individualized education programs for students with exceptional needs.

Prior to the enactment of Senate Bill 813, transportation for special education students was provided through the special transportation program, which received funds through the Special Education program (Item 6100-161-001). Reimbursement for special transportation was not restricted to home-to-school transportation. It was also provided for transportation to and from related services, such as off-campus physical therapy required by a student's individualized education program (IEP).

Senate Bill 813 eliminates the separate special transportation program after June 30, 1984, and includes students with exceptional needs within the regular home-to-school transportation program. In so doing, however, the act limits reimbursements to transportation between home and school; it makes no provision to reimburse school districts for transportation for related services required by students' IEPs.

Reimbursements received by school districts in 1983–84 for special transportation—including transportation for related services—are added to regular home-to-school allowances received in 1983–84 to establish each district's "base". This base amount, after making adjustments for inflation, determines the maximum transportation allowance each district may receive in subsequent years. As a result, under the provisions of SB 813, each district which certifies that its 1983–84 approved transportation costs were at least 95 percent of the reimbursement it received in that year will receive in 1984–85 an amount based on prior year allowances which included funds received for related services transportation costs. Districts will not, however, have the legal authority to provide special transportation for related services with transportation funds received in 1984–85. If these costs are excluded from districts' calculations of approved costs in 1984–85, transportation allowances may be reduced in subsequent years. School districts will, however, still be required by other provisions of state and federal law to provide the services included in each child's IEP—including transportation for related services.

In order to permit local education agencies to expend transportation funds for the purpose for which we believe the Legislature intended them to be spent, we recommend that the Legislature adopt the following Budget Bill language:

"Home-to-school transportation shall include transportation to and from related student services required by the individualized education programs for pupils with exceptional needs."

Funding deficits. As discussed in our analysis of the Special Education program (Item 6100-161-001), the special transportation program has incurred significant entitlement deficits in recent years. In 1982–83, local special transportation entitlements exceeded available funds by $27.1 million. As a result, districts and county superintendents received only 75 percent of the transportation allowances to which they were otherwise entitled, based on their actual costs incurred. The 1983 Budget Act, in combination with SB 813, provided an 8 percent COLA for special transportation, but provided no funding to eliminate this deficit. Under the provisions of SB 813, local education agencies will receive transportation allowances in 1984–85 and future year based on what was received in 1983–84, adjusted for inflation. As a result, the entitlement deficit that occurred in 1982–83 will continue to be reflected in these allowances.

c. Separate Transportation Fund Not Needed

We recommend that legislation be enacted to delete the requirement that school districts and county offices of education establish a separate transportation fund, and instead require each school district or county superintendent receiving a transportation allowance in 1984–85 to establish a restricted account in its general fund for all transportation allowances received.

Senate Bill 813 requires each school district or county office of education that receives state transportation allowances in 1984–85 or thereafter to establish a separate transportation fund. Two of the major reasons for requiring such a fund are (1) to assure that transportation allowances fund only approved transportation expenditures and (2) to protect accumulated savings for replacement and acquisition of buses. This requirement, however, may impose an administrative burden upon local school districts and may result in unnecessary delays when emergency expenditures are needed. For example, if major repairs are needed for a school bus, the repairs could be delayed because any expenditures from a district's transportation fund would require authorization by the school board.

Our review indicates that the objective of restricting the expenditure of transportation allowances to transportation operations and bus replacement could be served as effectively by requiring each district to establish a *restricted account* for transportation allowances and expenditures. Such an account, however, would not present the same difficulties that a special transportation fund would present. Accordingly, we recommend that legislation be enacted repealing the requirement that districts and county offices establish separate transportation funds.

2. Small School District (Transportation) Aid (Item 6100-101-001)

We recommend approval.

Small School District Aid provides additional general state aid to school districts which (1) have fewer than 2,501 units of average daily attendance and (2) incurred transportation costs equal to more than 3 percent of their total general fund education expenses in 1977–78. Each qualifying district receives an increase in its revenue limit based on its transportation costs in 1977–78 or 1978–79. There is no requirement, however, that this aid be spent on transportation, and it may be used for a variety of other purposes.

The budget proposes $19,126,000 for Small School District Aid in 1984–85. This amount includes a proposed 3 percent cost-of-living adjustment. Our analysis indicates that the request is reasonable, and we recommend that it be approved.

3. School Bus Driver Instructor Training Program (Item 6100-001-178)

We recommend approval.

The Department of Education administers a School Bus Driver Instructor Training program which prepares teachers to instruct classes for prospective school bus drivers. Since 1974, all public school bus drivers have been required to complete 40 hours of training by an instructor trained by the Department of Education's School Bus Driver Instructor Training

DEPARTMENT OF EDUCATION—Continued

program, in order to obtain a license to drive school buses.

The School Bus Driver Instructor Training program was established in October 1970. For 12 of the past 13 years, approximately one-half of the program's annual costs have been funded by the federal government. During 1980–81, the program was entirely state-funded, but some federal funding was restored in 1981–82. Although federal funding for the program will expire June 30, 1984, the Department of Education anticipates it will carry over $130,000 in excess federal funds to operate the program during the budget year.

Table 37 displays funding for the School Bus Driver Instructor Training program for the prior, current, and budget years. The budget proposes an appropriation of $447,000 for support of the School Bus Driver Instructor Training Program in 1984–85, consisting of $317,000 from the Driver Training Penalty Assessment Fund and $130,000 from federal fund reimbursements provided through the Office of Traffic Safety. The appropriation from the Penalty Assessment Fund represents a $69,000 (28 percent) increase over current-year expenditures from this source. In contrast, expenditures supported with federal funds will decline by $142,000 (52 percent) from the current-year level. The total budget request for the program is $73,000 (or 14 percent) *less* than estimated current-year expenditures.

Our analysis indicates that the request is reasonable, and we recommend that it be approved.

Table 37

Appropriations for School Bus Driver Instructor Training Program 1982–83 through 1984–85 (in thousands)

	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Change Amount*	*Change Percent*
Driver Training Penalty Assessment Fund	$243	$248	$317	$69	27.8%
Reimbursements (Federal grant funds)	197	272	130	−142	−52.2
Totals	$440	$520	$447	−$73	−14.0%

B. SCHOOL FACILITIES

The State School Facilities Aid program provides financial assistance to school districts for (1) acquisition and development of school sites, (2) construction or reconstruction of school buildings, (3) purchase of school furniture and equipment for newly constructed buildings, (4) emergency portable classrooms, and (5) deferred maintenance. In addition, SB 81 (Ch 684/83) and SB 813 (Ch 498/83) established programs which provide incentives for school districts to utilize year-round schools and other alternatives to the construction of new school facilities.

Funding for school facilities aid is provided through three major statutory appropriations, each of which is available for expenditure irrespective of fiscal year. They are as follows:

- School district "excess" repayments—that is, the excess of school district principal and interest payments on state school building aid loans over the amount needed for the debt service of state school construction bonds. These excess repayments are principally used to fund school district deferred maintenance projects, with any remaining amount going to fund new construction,

- A $200 million allocation of tidelands oil revenues annually through 1984–85, which is used principally for new school construction, and
- The proceeds from bond sales authorized by Proposition 1 of 1982, which can be used for new school construction and rehabilitation of existing school facilities. Of the $500 million in bonds authorized by Proposition 1 of 1982, a minimum of $350 million is available for construction of new school facilities and up to $150 million may be used for reconstruction and rehabilitation of facilities constructed over 30 years ago. Of these funds, $200 million has been apportioned to date.

Recent Funding History. Table 38 shows the total revenues appropriated and available for school construction and deferred maintenance during the prior, current, and budget years.

Table 38

Revenue Sources for School Construction and Deferred Maintenance [a]
1982–83 through 1984–85
(in thousands)

	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*
Revenues authorized from continuous appropriations:			
Excess School District Loan Repayment Ch 282/79 (AB 8) for deferred maintenance and new construction	$83,892	$81,260	$87,858
Carryover of prior year excess school payments	13,990	—	—
Tidelands oil appropriation—Ch 899/80 (AB 2973)	200,000	200,000	—
Tidelands oil appropriation—Section 37, Budget Act of 1981	—	—	200,000 [c]
Proposition 1 bond sales—Ch 410/82 (AB 3006)	125,000	200,000	225,000
Repayment of Loan—Ch 998/81 (AB 114)	47,200	—	—
Subtotals	$470,082	$481,260	$512,858
Transfers and loans:			
Nontransfer of school district excess repayment—Section 19.05, Budget Act of 1982	−$18,892	—	—
Nontransfer of school district excess repayments—Ch 10x/83 (AB 28x)	−27,973	—	—
Nontransfer of tidelands oil reserves—Ch 327/82 (SB 1326)	−147,200	—	—
Transfer to General Fund—Ch 10x/83 (AB 28x)	−125,000	—	—
Nontransfer of tidelands oil revenues	—	−$200,000	−$100,000
Subtotals	−$319,065	−$200,000	−$100,000
Net amount available for commitments	$151,017	$281,260	$412,858
State School Building Lease-Purchase Fund	*$113,990*	*$200,000*	*$325,000*
State School Deferred Maintenance Fund [b]	*37,027*	*81,260*	*87,858*

[a] This table illustrates only the revenue sources provided by current statutes, and the transfers and loans made from those revenues to arrive at the net appropriation for school construction and deferred maintenance in the particular fiscal year. This is not a fund condition statement and, accordingly, does not include any beginning balances in these funds.

[b] School districts receive deferred maintenance funds to match district expenditures up to one-half of 1 percent of the district's General Fund budget. The fund balance not used for deferred maintenance is transferred to the State School Building Lease-Purchase Fund.

[c] $200 million in tidelands oil appropriations transferred to the General Fund by the Budget Act of 1981 was to be repaid in 1984–85 through an additional one-year allocation of tidelands oil revenue to the Lease-Purchase Fund. The Governor proposes instead to provide $100 million of tidelands oil revenue in 1984–85, and $125 million per year thereafter through 1988–89.

Table 39 shows expenditures—or apportionments to school districts—

DEPARTMENT OF EDUCATION—Continued

for school building aid during the same three years. The expenditure amounts indicated in Table 39 may not equal the revenues to the State School Building Lease-Purchase Fund or the Deferred Maintenance Fund during those years because beginning reserves and other adjustments may vary from year to year.

Table 39
School Facilities Aid Expenditures
1982–83 through 1984–85
(in thousands)

	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Change Amount*	*Change Percent*
State Operations					
State Allocation Board	$1	$1	$1	—	—
Department of General Services, Office of Local Assistance [a]	1,576	1,844	1,936	$92	5.0%
Department of Education	425	504	596	92	18.2
Subtotals	$2,002	$2,349	$2,533	$184	7.8%
Local Assistance					
Lease-Purchase Allocations	$125,000	$155,959	$324,626	$168,667	108.1%
Deferred Maintenance	37,027	65,000	87,858 [b]	22,858	35.2
Portable/Relocatable Classrooms	9,244	1,800	1,800	—	—
Subtotals	$171,271	$222,759	$414,284	$191,525	86.0%
Totals	$173,273	$225,108	$416,817	$191,709	85.2%
State School Building Aid Fund	*$8,644*	*$730*	*$759*	*$29*	*4.0%*
Rental of State Property (portables)	*1,453*	*1,700*	*1,700*	—	—
State School Building Lease-Purchase Fund [c]	*126,149*	*157,678*	*326,500*	*168,822*	*107.1*
State School Deferred Maintenance Fund [c]	*37,027*	*65,000*	*87,858*	*22,858*	*35.2*

[a] This amount includes expenditures for administration of the State School Building Aid program as well as the Lease-Purchase and Deferred Maintenance programs.

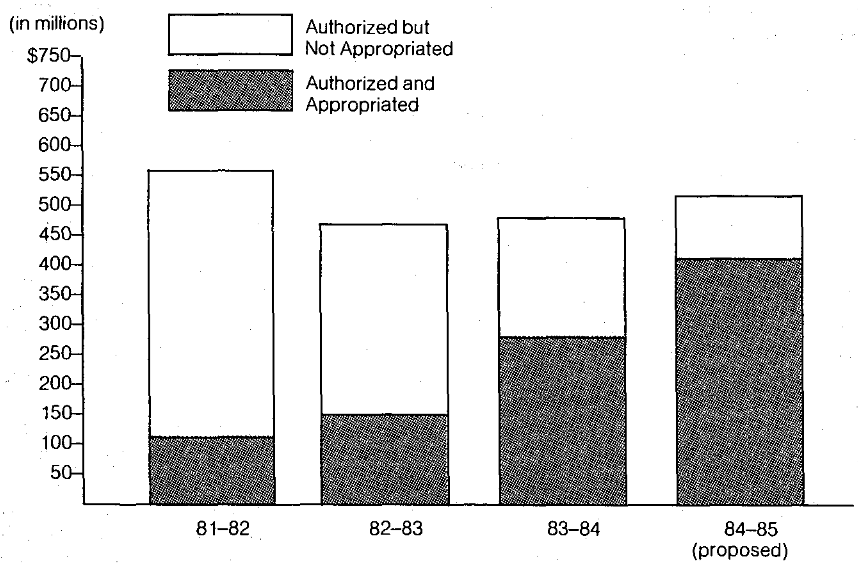
[b] Under current law, actual allocations to school districts for deferred maintenance will total approximately $63,000. Funds not allocated for deferred maintenance will be transferred to the State School Building Lease-Purchase Fund according to the provisions of Section 17780 of the Education Code.

[c] Expenditures from the Lease-Purchase and Deferred Maintenance Funds may not equal revenue to those funds during the same year as indicated in Table 38, because beginning reserves and other adjustments may vary from year to year.

As shown in Chart 3, from 1981–82 through 1983–84, the Legislature withheld over 60 percent of the funds which prior law had authorized for school construction and deferred maintenance purposes in those years. Of $1,511 million continuously appropriated for these three years, only $545 million was made available to fund school building aid. The remaining $966 million was allocated instead to the General Fund to balance the state's budget and to provide funding for programs which the Legislature determined had a higher priority than the activities supported from school building aid funds.

Proposed Budget. The budget proposes to allocate during 1984–85 the final $225 million in Proposition 1 bond revenues for new construction and rehabilitation. Instead of the $200 million in tidelands oil revenues appropriated under current law for new construction, the budget proposes to provide $100 million for this purpose in 1984–85 and $125 million each year thereafter through 1988–89.

Chart 3
State School Building Aid
1981-82 Through 1984-85 (in millions)



In addition, the budget provides $1.8 million for portable/relocatable classrooms. Of this amount, $1.7 million will be offset by rental income from portable classrooms in use by school districts, and $100,000 will be provided from the State School Building Aid Fund.

1. School Construction

Prior to the passage of Proposition 13 on the June 1978 ballot, local school districts financed the construction of elementary and secondary school facilities by either issuing school construction bonds, or obtaining a loan from the state under the State School Building Aid program. In either case, district voters had to approve the borrowing beforehand. Funds borrowed from the state or private sources were repaid from property tax revenues. Generally, this meant that the district borrower had to levy an additional property tax, in order to provide adequate security for the bonds or loans.

Proposition 13 eliminated the ability of local school districts to levy additional special property tax rates of the type previously used to pay off indebtedness. Consequently, school districts can no longer issue construction bonds or obtain loans through the State School Building Aid program.

Because of this, the Legislature revised the State School Lease-Purchase Act so that districts could continue to receive state aid for financing needed school facilities. Under the act, the state no longer provides loans to school districts; instead, it provides "quasi-grants." Specifically, the state

DEPARTMENT OF EDUCATION—Continued

funds the construction of new school facilities and rents them for a nominal fee to local school districts under a long-term, lease-purchase agreement that calls for title to the facility to be transferred to the district no later than 40 years after the rental agreement is executed. In most cases, rent is paid to the state at the rate of $1 per year, plus any interest earned on state funds deposited in the county school lease-purchase fund on behalf of the district. Because this amount usually is nominal in comparison to the amount of state aid provided, the state essentially is providing a grant for school construction, rather than a loan to school districts.

School districts receiving lease-purchase funds must either (1) provide 10 percent of a project's cost from other district funds or (2) agree to contribute to the State School Deferred Maintenance Fund 1 percent of the project's costs each year, for 10 years.

In order to establish eligibility for school construction funds appropriated to the State Allocation Board, school districts must demonstrate that they are experiencing overcrowding and that they are fully utilizing all available facilities. (In a very small number of cases, districts receive school construction funds from the State Allocation Board for reasons other than overcrowding—for example, where a school has been destroyed by an earthquake.) In addition, the Legislature adopted language in the *Supplemental Report to the Budget Act of 1983,* which requires applicant school districts to demonstrate, before receiving funds for planning studies, that they cannot use (1) alternatives (such as year-round schools) to mitigate the need for new construction or (2) options identified by the State Allocation Board and the Department of Education for financing the cost of proposed school construction.

School Construction Need. As a result of the restrictions placed on school districts by Proposition 13 and funding transfers made necessary by the state's recent budget problems (as discussed earlier), there is now a large backlog of demand for school construction funds. As of January 23, 1984, school districts had filed applications with the State Allocation Board for school construction funds that exceeded—by $481,490,635—the amount apportioned by the State Allocation Board. The unfunded amount includes $704,937 for schools awaiting final approval and funds to begin construction, and $480,785,698 in estimated costs for projects that are still in the planning stage.

Some $75 million in revenues from Proposition 1 bond sales is anticipated in the first months of 1984, and the State Allocation Board plans to make these funds available for apportionments to districts for planning and construction during the current fiscal year. Of applications currently on file with the State Allocation Board, approximately $406.5 million in construction need will remain unfunded at the end of 1983–84.

Based on a survey of school districts, the State Allocation Board estimated in 1983 that only about 250 of the 700 districts needing new facilities had filed applications with the board. At that time, the total need for districts with applications on file equaled $750 million. (As noted, this figure has since grown to over $800 million.) The State Allocation Board estimated that an *additional* $750 million was needed to fund construction in those districts which had not filed applications. Actual need could be substantially lower, if those districts with the greatest need have already filed applications. Some districts which have substantial overcrowding problems that developed only recently probably have not yet applied for funds, however, because they lack sufficient priority points to receive construction funding or have chosen to avoid incurring the administrative costs associated with filing an application. Consequently, it is not possible to determine more accurately the total amount of funding needed for new school construction statewide.

Developer Fees. As an alternative, or as a supplement, to funds available from the Lease-Purchase program, some school districts are receiving developer impact fees. These funds are collected under the provisions of Ch 955/77 (SB 201) or are based on the impact mitigation provisions of the California Environmental Quality Act (CEQA).

Under SB 201, a city or county may adopt an ordinance to require developers to dedicate land or pay fees to mitigate the impact of housing developments on local school districts. These fees must be used to acquire temporary elementary or secondary school facilities, which are used until permanent school facilities can be built. In addition, Ch 1254/83 (SB 811) provided that developer fees may be used to provide the district's 10 percent share of the cost of constructing new school facilities through the Lease-Purchase program.

Under CEQA, an environmental impact report (EIR) is required for any project that may have a significant effect on the environment. If the EIR indicates a particular development will cause a negative impact on service areas of the city or county, the developer is obligated to remedy the impact by either mitigating or avoiding the identified effects.

In cases where a school district will be adversely affected by a development, an unofficial agreement between the developer and the impacted school district may be reached to mitigate the effects. This agreement usually calls for the developer to levy a fee on each parcel of property within the development and/or to dedicate land for school purposes. These fees are paid directly to the school district, and can be used to fund either interim or permanent school facilities.

Rehabilitation and Reconstruction of Existing School Facilities. Proposition 1 of 1982 provided that up to $150 million of the proceeds from bond sales authorized by that Act would be used for rehabilitation and reconstruction of existing school facilities. At the time this *Analysis* was prepared, the State Allocation Board (SAB) was developing regulations to govern the apportionment of these funds. The SAB anticipates that application materials will be made available in February, and the first apportionments to school districts for rehabilitation and reconstruction will be made in April or May of 1984. The full amount of Proposition 1 funds will be apportioned by the end of 1984–85.

a. Reduction of Tidelands Oil Revenue Appropriation—Control Section 11.10

As mentioned above, current law (Ch 169/81) provides that tidelands oil revenues appropriated for school construction but transferred instead to the General Fund by the Budget Act of 1981, are to be repaid through a $200 million appropriation of tidelands oil funds to the State School Building Lease-Purchase Fund in 1984–85. The 1984 Budget Bill includes a control section (11.10) which provides that, notwithstanding the provisions of current law, the 1984–85 apportionment of tidelands oil funds for school construction shall not exceed $100 million.

The budget proposes to reduce the appropriation in the current year in order to permit the use of these funds for other capital outlay expenditures. Section 30 of the budget trailer bill (SB 1379) would compensate for

DEPARTMENT OF EDUCATION—Continued

the reduction by appropriating $125 million in tidelands oil revenues to the Lease-Purchase Fund in each fiscal year from 1985–86 through 1988–89. Current law makes no appropriation of tidelands oil funds for school construction after 1984–85.

We have no analytical basis on which to determine the amount of tidelands oil revenues which should be appropriated to the Lease-Purchase Fund during the budget year or any subsequent fiscal years. This is a policy decision for the Legislature to make, based on its priorities regarding use of limited state funds. Accordingly, we make no recommendation on this issue.

b. Constitutional Amendment Needed

We recommend the enactment of legislation to place a constitutional amendment on the November 1984 ballot authorizing local voters to assess special property tax rates to fund debt service for local school construction bonds.

In our *Analysis of the 1983–84 Budget Bill,* we recommended that the Legislature enact legislation to place on the ballot a constitutional amendment authorizing voters to approve special property taxes in order to fund debt service for local school construction bonds. We once again make this recommendation. Our analysis continues to indicate that current methods of funding school construction (1) fail to provide sufficient funds to meet district needs in a timely manner, and (2) fail to distribute equitably the burden of paying for new school facilities.

As explained earlier, Proposition 13 effectively eliminated the ability of local school districts to levy additional special property tax rates to pay off new bonds or loans, thereby severely limiting districts' access to funds needed for school building construction. Consequently, school districts now must rely upon the State School Building Lease-Purchase program to finance virtually all of their capital outlay needs.

School districts frequently complain about various aspects of the Lease-Purchase program, including the amount of paperwork involved in filing an application and the restrictiveness of the program. More importantly, however, the current method of financing school construction (1) does not generate sufficient funding to meet district needs and (2) does not distribute the burden of paying for new school facilities in an equitable manner.

Current Mechanism Does Not Provide Sufficient Funding to Meet Districts' Needs. A major reason why the current method of financing school construction does not provide for the facility needs of all districts is that it is not geared to the life of the facilities themselves. Currently, the state must provide funds for the entire cost of school construction projects within approximately three years of their initiation. These facilities, however, often last 50 years. Such long-lived assets can and should be financed over their useful life. This would ensure that those benefitting from these structures in the future pay part of the cost of constructing them, rather than allowing the entire burden to fall on today's beneficiaries.

The inadequacy of present funding sources to provide for the school construction needs in the state points out the desirability of developing additional funding sources for school construction.

Burden of Financing School Construction is Not Distributed Equitably. The present method of financing school construction is inequitable because it requires all citizens of California to pay for school facilities which primarily benefit the residents of particular local school districts. Often, this results in taxpayers paying twice for school facilities: first, through their local property tax payments to pay off loans or bonds issued prior to 1978 to finance their own school facilities and, second, through the state budget to pay for facilities serving residents of other districts. In some cases, the recipients of this subsidy are located in growing and economically vigorous communities (hence the need for new facilities), while the subsidy providers are located in stagnant or declining communities. This does not seem to be consistent with the ability-to-pay doctrine that forms the basis for much of the state's tax system.

Recommendation. For these reasons, we believe that a new revenue source needs to be developed to finance school construction. Specifically, we believe that local school districts should be given the authority (subject to local voter approval) to assess a special property tax in order to amortize bonded debt issued to finance school construction. This financing mechanism would have the following advantages:

- It would provide local school districts with an opportunity to raise substantial amounts of money for new construction within a short period of time. This would allow districts to finance a substantial portion of their unfunded school construction needs in a relatively brief period of time.
- It would provide districts with the opportunity to conduct long-range planning as well as with greater flexibility, by allowing them either to construct new facilities or to rehabilitate existing facilities, depending on the costs and benefits of each alternative.
- It would increase incentives for each district to choose the most cost-effective solutions to its school facilities needs.
- It would avoid having some communities subsidize others, by providing for the beneficiaries of school construction projects to pay the cost of these projects themselves.
- It would make local school districts more accountable to those they serve, because voter approval would be necessary before bonds could be sold.

One potential drawback of this option is that it might provide only limited assistance in those districts in which school overcrowding is a problem only in certain areas within the district. Under these circumstances, it is not clear whether voters in the district as a whole would approve a bond measure for school construction which would primarily benefit residents in only one part of the district. Another potential drawback to this option is that the courts might strike it down as a violation of the *Serrano v. Priest* decision. Specifically, the courts might hold that the new property taxes raised are subject to equalization.

Our analysis, however, indicates that this option for financing school construction offers far more advantages to the public and state government than disadvantages. Accordingly, we recommend that the Legislature enact legislation placing such a constitutional amendment on the November 1984 ballot.

DEPARTMENT OF EDUCATION—Continued

2. Deferred Maintenance

Funds from the State School Deferred Maintenance Fund are provided on a matching basis to school districts for (1) deferred maintenance or (2) elimination of asbestos-related health hazards. The State Allocation Board apportions to each school district one dollar for every dollar of local funds contributed to the district's deferred maintenance funds. The amount of this apportionment is limited to a maximum of one-half of 1 percent of the district's total general fund budget (excluding capital outlay).

In cases of extreme hardship, districts may qualify for a one-year increase in apportionments for deferred maintenance, to be offset by reductions in apportionments in future years. In order to qualify for a "hardship apportionment," a district must have deposited *at least* one-half of 1 percent of its general fund budget (the maximum amount matched by state funds) in its deferred maintenance fund. Hardship funds may be provided if total state and local funds are insufficient to complete a critical project which, if not completed in one year, would result in serious damage to the remainder of a school facility or a serious hazard to the health and safety of students. Total funds provided by the State Allocation Board for hardship apportionments may not exceed 5 percent of the funds transferred into the State School Deferred Maintenance Fund during the fiscal year.

Funding for the State School Deferred Maintenance Fund is provided from "excess repayments"—the amount of school district payments on State School Building Aid loans which exceed the amount needed to service state school construction bonds issued under that program. Of the total amount of "excess repayments" received in each fiscal year, the State Allocation Board transfers to the State School Deferred Maintenance Fund the maximum amount which can be apportioned to school districts under current law. The balance of these funds is transferred to the State School Building Lease-Purchase Fund.

The budget indicates that in 1983–84, excess repayments will total $81,260,000. Of this amount, the budget indicates that approximately $65 million will be apportioned to school districts for deferred maintenance in the current year, and approximately $16 million will be transferred to the Lease-Purchase Fund for construction apportionments.

The budget further indicates that the *full amount* of anticipated "excess repayments"—$87,858,000—will be transferred to the State School Deferred Maintenance Fund in 1984–85. Based on provisions of current law, however, we estimate that a large portion of these funds *cannot be used for deferred maintenance*. Our analysis indicates that the maximum amount of deferred maintenance apportionments to school districts will not exceed approximately $63 million in the budget year ($60 million for regular deferred maintenance, plus $3 million for hardship apportionments). Consequently, if the full amount of "excess repayments" is transferred to the Deferred Maintenance Fund, as the budget proposes, a minimum of $25 million will remain unspent. This money could, however, be used for new school construction under the Building Lease Purchase Program.

a. Hardship Apportionments Increase Justified

We recommend that the Legislature adopt budget bill language permitting the State Allocation Board to reserve an amount, not to exceed 10 percent of the funds transferred to the State School Deferred Maintenance Fund from any source during 1984–85, for "hardship apportionments" to school districts.

The maximum apportionment from the State School Deferred Maintenance Fund, when matched by district contributions, will provide a school district with an amount equal to 1 percent of its general fund budget for the year. For many small school districts, this amount is not sufficient to fund major expenditures such as the replacement of a roof or heating system. School districts may file applications with the State Allocation Board for hardship apportionments if additional funds are needed to repair critical problems which could result in further damage to the building or a serious hazard to the health and safety of students. The hardship apportionments are, effectively, interest-free advances on future deferred maintenance apportionments.

During 1982–83, AB 28X (Ch 10X/83) reduced the total amount apportioned to school districts for deferred maintenance to $37 million. As a result, no funds were provided for hardship apportionments during that year.

As of December 31, 1983, the State Allocation Board (SAB) had on file 84 applications for hardship apportionments requesting $4.7 million—including $2.6 million in applications that were submitted but not funded during 1982–83. The SAB anticipates that it will receive applications for at least an additional $2.1 million by the final filing date for the current fiscal year—bringing total requests for hardship apportionments during 1983–84 to $6.8 million.

Our review of hardship applications on file with the SAB in January 1984 indicates that nearly all of them are from small rural school districts, including many one-school districts. Most requests are for funds to repair roofs, heating systems, plumbing, and water systems, and to repair damages resulting from the storms and heavy rains of the past two winters.

Because current law limits the total amount provided for hardship apportionments during each year to 5 percent of the total funds transferred into the State School Deferred Maintenance Fund, the State Allocation Board has estimated that the total appropriation for hardship apportionments during 1983–84 will be approximately $3 million. As a result, approximately $3.8 million in critical deferred maintenance needs will remain unfunded at the end of the current year.

As noted, the budget indicates that the full amount of excess repayments —$87,858,000—will be transferred into the State School Deferred Maintenance Fund. Under current law, however, the State Allocation Board, rather than the Budget Act, specifies the amount of excess repayments which are transferred to the Lease-Purchase Fund and the Deferred Maintenance Fund. Generally, the SAB transfers into the Deferred Maintenance Fund only an amount equal to the maximum apportionments which may be made from the fund under current law. For 1984–85, this amount will be approximately $63 million, including an estimated $60 million for regular matching apportionments and $3 million for hardship apportionments.

Our analysis indicates that the amount reserved for hardship apportionments should be increased in the budget year to *10 percent* of transfers into the State School Deferred Maintenance Fund, for the following reasons:

DEPARTMENT OF EDUCATION—Continued

- There is a large backlog of unfunded applications for hardship apportionments.
- If funds are not provided to complete needed repairs, serious damage to school facilities may result in increased deferred maintenance costs at a later date.
- The full amount of hardship apportionments will be "repaid" through subsequent reductions in deferred maintenance apportionments to school districts.

The effect of increasing to 10 percent the share of the Deferred Maintenance Fund reserved for hardship apportionments, as we recommend, would be to increase by approximately $3 million the amount of excess repayments transferred into the Deferred Maintenance Fund, and decrease by the same amount the balance transferred to the Lease-Purchase Fund. The $87.9 million in excess repayments would be distributed as follows: (1) approximately $60 million for regular deferred maintenance apportionments, (2) $6 million for hardship apportionments, and (3) approximately $21.9 million for lease-purchase apportionments.

Accordingly, we recommend adoption of the following Budget Bill language:

"Notwithstanding the provisions of Section 39619.5 of the Education Code, the State Allocation Board may reserve an amount not to exceed 10 percent of the funds transferred from any source to the State School Deferred Maintenance Fund during 1984–85, to be used for apportionments to school districts in instances of extreme hardship, as defined in Section 39619.5 of the Education Code."

3. Department of Education—School Facilities Planning (Item 6100-001-344)

We recommend approval.

The budget includes $596,000 from the State School Building Lease-Purchase Fund for support of the School Facilities Planning Unit in the Department of Education. This is an increase of $92,000, or 18 percent, over estimated 1983–84 expenditures for this purpose. This increase includes (1) $75,000 to assist and monitor the statewide compliance by school districts with federal asbestos health standards and (2) an increase of $17,000, or 3.4 percent, in support for the ongoing activities of the School Facilities Planning Unit.

Federal law requires all public and private elementary and secondary schools to: (1) identify building materials which contain friable (crumbly) asbestos, (2) maintain records and notify employees of the location of asbestos-containing materials, (3) provide custodial employees with instructions for reducing exposure to asbestos, and (4) notify their parent-teacher associations of the inspection results. Schools were required to have been in compliance with these requirements by June 28, 1983.

The Department of Education has indicated that many school districts did not meet the deadline for compliance with the federal requirements and will still not be in compliance by the end of the current fiscal year. The budget proposes to provide funding for one consultant position, support staff, travel, and related expenses to assist school districts in their efforts to comply with state and federal law regarding asbestos and other toxic building materials.

As part of its ongoing operations, the School Facilities Planning Unit also provides consulting services to local school districts. Among the types of assistance provided are (1) planning for new school facilities construction or renovation of existing facilities, (2) evaluation of existing facilities, and (3) financial planning for school construction.

Our analysis indicates that the amount proposed in the budget is needed to support the unit's ongoing responsibilities and its expanded efforts relating to asbestos and toxic building materials. Accordingly, we recommend approval of the request as budgeted.

4. Alternatives to School Construction (Item 6100-224-001)

As described earlier in our overview of recent school reform legislation, the Legislature in 1983 established two different programs to provide incentive payments for school districts using alternatives to the construction of new school facilities in meeting their space needs:

- Senate Bill 813 (Ch 498/83) establishes payments to school districts of $25 per pupil for every pupil in a school which is operated on a year-round basis because of overcrowding.
- Senate Bill 81 (Ch 684/83) provides incentive payments for school districts to use alternatives to new construction (including year-round schools) to reduce or eliminate their need for new school facilities.

The specific provisions of these two programs were discussed previously in detail in the overview of SB 813.

Senate Bill 813, as adopted by the Legislature, contained an appropriation of $7,687,000 from the General Fund to provide incentive payments for year-round schools in 1984–85. The Governor vetoed the funding for this program. Senate Bill 81 provides that funds for a different program of incentive payments—for school districts using alternatives to new construction—are to be transferred from the amount of "excess repayments" in the State School Building Aid program. This provision would therefore reduce the amount of funds which would otherwise be made available to the State School Deferred Maintenance Fund and the State School Building Lease-Purchase Fund.

Budget Proposes to Fund SB 81 Program. The budget proposes to appropriate $7,687,000 from the General Fund to provide incentive payments to school districts using alternatives to new construction, as provided by SB 81. The budget trailer bill provides that these funds are to be appropriated from the General Fund, rather than from "excess repayments" revenues, as provided by SB 81. The Budget Bill specifies that this appropriation for incentive payments will be the only allocation for incentive payments for year-round schools. The effect of the budget proposal is to provide a General Fund appropriation, in an amount intended by the Legislature to fund the SB 813 incentive payments for year-round schools, to fund instead the incentive payments provided by SB 81.

Consequences. For those school districts which are experiencing overcrowding and which could apply for incentive payments under the provisions of either SB 81 or SB 813, the major consequences of the budget's proposal to only fund SB 81 would include the following:

- Only those school districts which reduce their applications for new school facilities will be eligible to receive incentive payments. These payments will be based on the number of units of estimated average daily attendance (ADA) (1) served by the alternatives to new construction and (2) reduced from the districts' facilities applications.
- School districts will receive incentive payments for using *any* option

DEPARTMENT OF EDUCATION—Continued

which reduces the need for new school facilities. These options may include (1) the use of double sessions or an extended school day, or (2) the use of leased facilities in nearby school districts or privately-owned facilities within the district.

- School districts will receive incentive payments of approximately $236, $322, and $366 per unit of elementary, junior high, and high school ADA, respectively, if the ADA are accommodated by an alternative to new construction. These estimates are based on current construction and interest costs, and may increase in future years.
- School districts will not receive the payments envisioned by SB 813—$25 per pupil for every pupil attending a year-round school.
- A school district which used an alternative to new construction during 1982–83, but did not file a facilities application with the State Allocation Board on or before July 1, 1983, will not be eligible to apply for incentive payments based upon the number of ADA units accommodated by the alternative used during 1982–83.

Overbudgeting For Incentive Payments

We recommend that the amount budgeted for incentive payments for utilizing alternatives to new construction be reduced by $3,840,000, because these funds are in excess of the maximum amout needed to provide the apportionments specified in the appropriation. (Reduce Item 6100-224-001 by $3,840,000.)

For incentive payments to school districts utilizing alternatives to new construction, the budget proposes an amount equal to the appropriation initially provided by the Legislature (and subsequently vetoed by the Governor) in SB 813. This amount, however, was calculated based on a *different* incentive program for year-round schools. Our analysis indicates that the funding level proposed in the budget exeeds the likely requirements for the alternative program of incentive payments provided by SB 81.

In order to receive incentive payments under the provisions of SB 81, a school district must reduce its application for new facilities by the number of units of ADA to be accommodated by alternatives to new construction, and submit an application to the State Allocation Board for payments based upon that number of units of ADA. The SAB must report the total amount of incentive payments due to each school district by December 15, 1984, for apportionments in the budget year.

School districts must have applications for construction funds on file with the SAB in order to establish eligibility for incentive payments under the provisions of SB 81. In most cases, districts have already made a substantial investment in the application and planning processes for construction of new schools. Consequently, there is likely to be some delay before school districts request incentive payments. First, they will reassess their plans and determine the number of students that can be accommodated by alternatives to new construction, and the amount of ADA to be reduced from facilities applications. Such a reduction, moreover, will in most cases require substantial modifications to the plans for the facilities to be built. Given these delays, it is highly unlikely that applications for incentive payments, which must be approved by the State Allocation Board before December 15, 1984, in order to result in payments during the budget year, will request funds for more than 15 percent of the ADA upon which current applications for school facilities are based.

The State Allocation Board indicates that the amount of ADA upon which current applications for new school facilities are based is approximately 83,000. If school districts (1) accommodate 15 percent of this number through alternatives to new construction and (2) reduce their applications for new school facilities by the same amount of ADA, total incentive payments to those districts will be approximately $3,847,000 in 1984–85 (based on average payments of $300 per ADA).

We think this is a more realistic basis for budgeting for incentive payments for alternatives to new construction, and accordingly we recommend that the requested amount be reduced from $7,687,000 to $3,847,000. This will result in a savings of $3,840,000 to the General Fund.

5. The Civic Center Act

The Civic Center Act (Ch 1502/82) specifies that each public school facility is a civic center which shall be made available to a broad range of community and student groups, public agencies, and churches, for activities which do not interfere with the use of the facilities for school purposes.

The act provides that districts may charge fees to reimburse their costs associated with providing facilities for activities or organizations. The act specifies that maximum fees *may* be charged, or minimum fees *shall* be charged, for four categories of activities or groups:

- ***Maximum fee equal to direct costs***—may be charged student clubs or organizations, fundraising activities where proceeds are expended for the welfare of pupils, parent-teachers associations, school-community advisory councils, camp fire girls and boy scouts, senior citizens organizations, public agencies, organizations or clubs organized for cultural activities and general character building or welfare purposes, or mass care and welfare shelters during disasters or other emergencies.
- ***Minimum fee required equal to direct costs***—shall be charged churches or religious organizations using school facilities for the conduct of religious services for temporary periods.
- ***Fee required equal to fair rental value***—shall be charged entertainments or meetings where admission fees are charged and the proceeds are *not* spent for the welfare of pupils or for charitable purposes.
- ***Maximum fee permitted equal to direct costs or fair rental value***—may be charged all other activities, with fees to be determined by local school board policy.

Direct costs are defined as the costs to the school district of supplies, utilities, janitorial services, or employee salaries which are necessary because of an organization's use of school facilities. Fair rental value is defined as the direct costs to the district, plus the amortized costs of the school facilities used for the duration of the activity authorized.

a. Report on School District Fee Policies.

The Civic Center Act requires the Legislative Analyst to report, prior to March 1, 1984, on the practices of school districts with regard to fees charged under the act's provisions. In compliance with this requirement, last fall we conducted a survey based on a stratified, random sample of 50 school districts throughout the State. We obtained responses from 47 (or 94 percent) of the districts surveyed. These districts account for 1,242,000 ADA—or 30 percent of the statewide total.

The results of this survey are summarized in Table 40.

DEPARTMENT OF EDUCATION—Continued

Table 40
Civic Center Act
Fees Charged For Use of School Facilities
1983–84

Type of Organization or Activity	*No Fee*	*Less Than Direct Cost*	*Equal to Direct Cost*	*Less Than Fair Rental Value*	*Equal to Fair Rental Value*	*Greater Than Fair Rental Value*
	Percent of Districts Reporting Fees					
I. Maximum fee *permitted*, equal to direct costs:						
Student clubs	96%	2%	2%	—	—	—
Fundraising for pupils	63	17	17	—	—	2[a]
PTAs	93	—	7	—	—	—
School-community advisory councils	98	—	2	—	—	—
Campfire, Boy Scouts, and Girl Scouts	83	7	9	—	2[a]	—
Senior citizens	68	7	22	—	2[a]	—
Other public agencies	46	11	37	2[a]	4[a]	—
Groups for cultural activities and general welfare	30	9	50	2[a]	9[a]	—
Mass care emergency shelters	85	5	10	—	—	—
II. Minimum fee *required*, equal to direct cost:						
Churches or religious organizations	12[b]	10[b]	20	8	48	2
III. Fee *required*, equal to fair rental value:						
Fundraising not for pupils or charitable purposes	20[b]	3[b]	33[b]	5[b]	33	5
IV. Maximum fee *permitted*, equal to costs *or* fair rental value						
Fundraising for charitable purposes	36	7	48	—	7	2[a]
Organizations or activities not specified above	10	13	16	6	52	3[a]

[a] Districts reporting fees *greater* than *maximum* provided by Civic Center Act.
[b] Districts reporting fees *less* than *minimum* provided by Civic Center Act.

Our review of the survey responses indicates that nearly all districts report charging fees equal to or less than the amounts permitted by the Civic Center Act. A number of districts (9 out of 47 districts responding) may be charging churches or religious organizations an amount less than their direct costs—the *minimum* fee required by current law.

Table 41 shows that, for all types of activities, larger school districts (over 13,000 ADA) were more likely than smaller districts to charge fees. Of smaller districts, 60 percent report charging fees for some activities, while 89 percent of larger districts report charging some fees. Only 14 percent of smaller districts and 21 percent of larger districts reported charging fees for the use of school facilities by boy scouts, girl scouts, PTA's, student clubs, or similar organizations for activities other than fundraising. The number charging fees for fundraising activities to benefit pupils represented 63 percent of larger districts, but only 14 percent of smaller districts.

b. Conclusion

In our survey of school districts' fee practices, we have identified no major problems which would require action by the Legislature at this time. Accordingly, these survey results are presented, in compliance with the requirements of the Civic Center Act, without specific recommendations for legislative action.

Table 41
Fees Charged by Large and Small Districts
1983–84

Number of Districts Reporting:	*28 Smaller Districts* [a]	*19 Larger Districts* [b]
Fees charged for one or more types of activities	60%	89%
Fees charged for PTAs, boy scouts, girl scouts, student clubs, etc.	14	21
Fees charged for fundraising to benefit pupils	14	63

[a] Under 13,000 ADA.
[b] Over 13,000 ADA.

C. CHILD NUTRITION (Items 6100-101-945, 6100-201-001, and 6100-201-890)

The department's Office of Child Nutriton Services administers the state child nutrition program. The office also supervises the federally-funded National School Lunch and Breakfast Programs and Child Care Food Program. These programs assist schools in providing nutritious meals to pupils, with emphasis on free or reduced-price meals to children from low-income families.

Funding for Child Nutrition Programs. Table 42 summarizes funding for child nutrition programs in the prior, current, and budget years.

Table 42
Funding for Child Nutrition Programs
1982–83 through 1984–85
(in thousands)

	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Change Amount*	*Change Percent*
State Operations					
General fund	$1,295	$1,301	$1,341	$40	3.1%
Federal funds	3,997	5,266	5,706	440	8.4
Reimbursements	10	—	—	—	—
Subtotals	$5,302	$6,567	$7,047	$480	7.3%
Local Assistance					
General fund	$25,734	$26,803	$27,607	$804	3.0%
Fedeal funds	321,111	323,671	322,590	–1,081	–0.3
Subtotals	$346,845	$350,474	$350,197	–$277	–0.1%
Totals	$352,147	$357,041	$357,244	$203	0.1%

The table shows that child nutrition programs are supported primarily by federal funds. The budget proposes an increase of $480,000, or 7.3 percent, for state operations, and a decrease of $277,000, or 0.1 percent, for local assistance. These changes are explained in the following analyses of the state and federal child nutrition programs.

1. State Child Nutrition Program (Items 6100-101-945 and 6100-201-001)

We withhold recommendation on $27,607,000 requested for the child nutrition program, pending receipt of additional information on the projected number of meals to be served.

The state child nutrition program provides a basic subsidy from the General Fund for each meal served by public schools, private nonprofit schools, and child care centers to pupils eligible for free and "reduced-

DEPARTMENT OF EDUCATION—Continued

price" meals (generally, low-income pupils).

The budget proposes $27.6 million to fund the state child nutrition subsidy in 1984–85, an increase of 3 percent over the current year. This amount assumes that approximately the same number of meals will be served in 1984–85 as were served in 1983–84, and provides for a 3 percent inflation adjustment.

Current law provides that the state meal reimbursement rate is to be adjusted for inflation, based on the "food away from home" component of the Consumer Price Index for San Francisco and Los Angeles. This would require a COLA of 4.1 percent in 1984–85, or an augmentation to the budget of $294,000.

The Department of Education indicates that additional information on meals served during the current year will be available in February 1984, thereby facilitating a revised projection of the number of meals eligible for the state subsidy in 1984–85. We will review this information and report on its implications for funding the state child nutrition program during the budget hearings.

2. Federal Child Nutrition Program (Item 6100-201-890)

We recommend approval.

As shown in Table 42, the budget proposes an appropriation of $323 million from the Federal Trust Fund for local assistance in 1984–85, approximately the same amount as estimated expenditures in the current year. The budget also proposes $5.7 million in federal funds for state operations, an increase of 8.4 percent over the current-year level. This includes $306,000 to establish 5 new positions to bring the department into compliance with federal requirements concerning the auditing of child nutrition programs.

Our review indicates that these federal funds will be expended for appropriate purposes and, consequently, we recommend approval of the funds as budgeted.

IV. NON-K–12 EDUCATION PROGRAMS

This section analyzes those programs administered by the Department of Education which are not a part of the K–12 education system. These include Youth Programs, Adult Education, and the Office of Surplus Property.

A. YOUTH PROGRAMS

Table 43 summarizes funding in the prior, current, and budget years for youth programs. These programs include Preschool, Child Care, Foster Youth Services, and the Youth Suicide Prevention Program.

The budget proposes a total expenditure of $287,210,000 for state operations and local assistance in connection with youth programs during 1984–85—an increase of $16,613,000, or 6.1 percent, over estimated expenditures during the current year. Funding for these programs is discussed in greater detail in the following analysis.

Table 43
Funding for Youth Programs
1982–83 through 1984–85
(in thousands)

	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Change Amount*	*Change Percent*
State Operations					
Preschool	$394	$343	$357	$14	4.0%
Child Care	3,752	3,051	3,143	92	3.0
Youth Suicide Prevention	—	—	15	15	N/A
Subtotals	$4,146	$3,394	$3,515	$121	3.6%
Local Assistance					
Preschool	$30,269	$32,162	$33,126	$964	3.0%
Child Care	220,329	234,282	249,487	15,205	6.5
Foster Youth Services	716	759	782	23	3.0
Youth Suicide Prevention	—	—	300	300	N/A
Subtotals	$251,314	$267,203	$283,695	$16,492	6.2%
Totals	$255,460	$270,597	$287,210	$16,613	6.1%
General Fund	*$253,482*	*$268,099*	*$275,960*	*$7,861*	*2.9%*
Federal funds	*1,958*	*1,957*	*1,957*	—	—
Special Account for Capital Outlay	*20*	*541*	—	*−541*	*−100.0*
Reimbursements	—	—	*9,293*	*9,293*	*N/A*

1. Preschool (Item 6100-196-001)

We recommend approval.

The State Preschool program provides educational and related services in part-day programs for pre-kindergarten (four-year-old) children from low-income families. Parent education and training are also provided for the parents of enrolled children. Preschool programs are administered by 115 school districts which enroll 11,300 children and by 73 private nonprofit agencies and institutions of higher education which enroll 8,000 children.

The preschool scholarship incentive program (Ch 795/75) provides scholarships for both preschool teachers and aides, to assist them in continuing their professional development toward attainment of full credentials.

Table 44 shows expenditures for the State Preschool program in the prior, current, and budget years.

Table 44
State Preschool General Fund Expenditures
1982–83 through 1984–85
(in thousands)

	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Change Amount*	*Change Percent*
State Operations	$394	$343	$357	$14	4.0%
Local Assistance	30,269	32,162	33,126	964	3.0
Scholarship Incentive program	(175)	(253)	(261)	(8)	3.0
Totals	$30,663	$32,505	$33,483	$978	3.0%

The budget proposes expenditures of $33,483,000 from the General Fund for State Preschool in 1984–85—including $357,000 for state operations and $33,126,000 for local assistance. The proposed budget includes a 3 percent increase above estimated current-year expenditures for the program. Our analysis of the budget request indicates that the amount proposed is needed to support current levels of service in the State Preschool program. Accordingly, we recommend that funding be approved as budgeted.

DEPARTMENT OF EDUCATION—Continued

2. Child Care (Items 6100-196-001 and 6100-196-890)

The Child Care and Development program's major goals are to (1) enhance the physical, emotional, and developmental growth of participating children, (2) assist families to become self-sufficient by enabling parents to work or receive employment training, and (3) refer families in need of medical or family support services to appropriate agencies.

The Office of Child Develoment (OCD) administers a variety of subsidized child care programs. Over the years, several different program structures have been established to target resources to specific populations and/or to address specific types of needs.

Funding. Table 45 summarizes state and federal funding for child care services in the prior, current, and budget years.

Table 45
Child Care Services
Expenditures and Funding
1982–83 through 1984–85
(in thousands)

	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Change Amount*	*Change Percent*
Local Assistance:					
General Child Care					
Center Program—Public	$118,512	$125,700	$129,473	$3,773	3.0%
Center Program—Private	40,110	43,295	44,595	1,300	3.0
Center Program—Title 22 [a]	7,861	8,805	9,070	265	3.0
Family Child Care Homes [a]	4,826	4,132	4,257	125	3.0
County Child Care Services	6,101	5,780	5,954	174	3.0
Campus Children's Centers	5,162	5,537	5,703	166	3.0
High School Age Parenting	4,371	4,626	4,766	140	3.0
Migrant Day Care	7,614	7,952	8,132 [b]	180	2.3
Special Allowance for Rent	365	388	400	12	3.0
Special Allowance for Handicapped	587	651	671	20	3.0
Alternative Payment Program [a]	15,716	17,584	18,112	528	3.0
Resource and Referral [a]	4,813	5,111	5,264	153	3.0
Campus Child Care Tax Bailout	3,477	3,686	3,797	111	3.0
Special allocation for hearing	—	8	—	–8	–100.0
Employer-Sponsored Child Development Programs	—	250	—	–250	–100.0
Protective Services	794	78	—	–78	–100.0
Child Care Capital Outlay (carryover)	20	699	—	–699	–100.0
Subtotals	$220,329	$234,282	$240,194	$5,912	2.5%
Child Care and Employment Act	—	—	$9,293 [c]	$9,293	N/A
State Operations	$3,752	$3,051	3,143	92	3.0%
Totals	$224,081	$237,333	$252,630	$15,297	6.4%
General Fund	*$222,103*	*$234,835*	*$241,380*	*$6,490*	*2.8%*
Federal funds	*1,958*	*1,957*	*1,957*	—	—
Special Account for Capital Outlay	*20*	*541*	—	*–541*	*100.0*
Reimbursements	—	—	*9,293* [c]	9,293	—

[a] Formerly included under Alternative Child Care Programs.
[b] Includes $1,957,000 of federal funds and $6,175,000 of state funds.
[c] AB 1162 (Ch 1282/83) increases child care fees paid by AFDC recipients. The Governor's Budget proposes to transfer an estimated $3,334,000 of this amount from the Department of Education to the Department of Social Services to reimburse increased General Fund costs to the AFDC program.

The budget proposes a funding level of $249,487,000 for child care local assistance—an increase of $15,205,000 over estimated current-year expenditures—and $3,143,000 for state operations (an increase of $92,000) in 1984–85. The increases primarily reflect:

- An increase of $6.9 million (3 perent) for a cost-of-living adjustment in payments to child care agencies.
- Unspecified expenditures from reimbursements totaling $9.3 million, which are anticipated as a result of AB 1162 (Ch 1282/83). (This measure requires fees to be collected from AFDC recipients participating in subsidized child care programs.)
- A decrease of $699,000 in one-time capital outlay funds carried over into the current year which will not be available in 1984–85.
- A decrease of $328,000, reflecting the termination of state funding for employer-sponsored child care and protective services programs which are not a part of OCD's ongoing child care programs.

Participation. Table 46 summarizes the scope of SDE child care services for 1983–84. The table shows that 568 child care and development agencies will provide services to an estimated 142,947 children in the current year. The budget indicates an average daily enrollment (ADE) in child care programs during the current year of 51,394—a reduction of 2,184, or 4.1 percent, below the 1982–83 ADE level.

Table 46
Child Development Services
Estimated Number of Agencies, Sites, and Children
1983–84

Programs	*Agencies*	*Sites*	*Children*
Center Program—Public	108	479	69,889
Center Program—Private	184	297	24,955
Center Program—Title 22	57	72	6,172
Family Child Care Homes	21	N/A[a]	3,325
County Child Care Services	32	N/A[a]	10,917
Campus Children's Centers	50	76	6,492
High School Age Parenting	49	59	2,222
Migrant Day Care	27	49	7,482
Alternative Payment Program	40	—	11,493
Totals	568	1,033	142,947

[a] Not Available

Employer-Sponsored Child Care. The 1983 Budget Act reappropriated $250,000 of child care and development local assistance funds for the development of employer-sponsored child care programs. The OCD established contracts with 12 child care resource and referral agencies to provide assistance in developing employer-sponsored child care services in local communities. Each contractor is expected to have established at least one employer-sponsored child care program by October 1, 1984. Language contained in the *Supplemental Report to the 1983 Budget Act,* declared the Legislature's intent that these programs be fully self-supporting by the 1984–85 fiscal year. Accordingly, the budget proposes no funds for this program in 1984–85.

DEPARTMENT OF EDUCATION—Continued

Protective Services. During 1983–84, OCD will complete the expenditure of funds initially appropriated by Chapter 209/80 to provide protective child care services for children who have been identified as being (or at risk of being) neglected, abused, or exploited. In some counties, these funds have been used to purchase services from family day care homes and child care centers in which employees have received training to provide specialized child care for children in need of protective services. In other counties, these funds have been used to purchase general child care services from child care providers able to accommodate additional children.

The budget proposes no funds for this program in 1984–85. Under current law, however, children in need of protective services are granted first priority to receive state- or federally-subsidized child care and development services.

a. Fees For Child Care Services

Eligibility and fees for most child care services administered by the Office of Child Development (OCD) are determined by a family fee schedule which takes into account family size and income. In order to establish eligibility for subsidized child care services, a family must have, at the time of application, a gross monthly income at or below 84 percent of the state median income. Families with incomes below 50 percent of the state median pay no fees for child care, while families with incomes between 50 percent and 100 percent of the median pay fees on a sliding scale ranging from 50 cents to $12 a day. Families may continue to receive services until their incomes reach 100 percent of the state median (for a family of four—$2,216 monthly or $26,592 a year). No fees are charged for the state Preschool or School Age Parenting and Infant Development programs.

In accordance with the *Supplemental Report to the 1983 Budget Act,* OCD adopted a revised family fee schedule which became effective January 1, 1984. The new family fee schedule, which is reflected in the figures just noted, is based upon data from the Current Population Survey, adjusted for family size. For a family of four, the new fee schedule resulted in no fee increase for families below 70 percent of the state median income, and increases of from 1 percent to 20 percent for families with incomes between 71 percent and 100 percent of the state median.

b. Attempts to Increase Revenues From AFDC Families

Pursuant to the provisions of the trailer bill (Ch 323/83) to the 1983 Budget Act, AFDC and SSI/SSP grants are now considered as part of gross income for the purpose of determining fees to be paid by families utilizing state subsidized child care services. Prior to July 1, 1983, these recipients paid no fee, regardless of income. Because most families lose their eligibility for AFDC or SSI/SSP benefits before their total income (earnings and welfare payments) is high enough to be charged any fees for child care, this change has had little effect on the total amount of fees collected by child care agencies.

During 1983, the Legislature also enacted Ch 1282/83 (AB 1162), which attempts to increase the amount of child care fees collected from AFDC recipients in an effort to increase federal reimbursements. Specifically, the act requires the Superintendent of Public Instruction to adopt regulations and procedures to collect child care fees from families receiving

AFDC, equivalent to the amount of "income disregard" for child care provided in the AFDC program.

AFDC Income Disregard. Under current regulations, families which receive AFDC are charged fees for subsidized child care services, based on their monthly incomes. Most AFDC families pay no fee for child care services provided through the Office of Child Development. AFDC recipients with earned income can, however, be reimbursed for up to 100 percent of the cost of work-related child care through increases in their AFDC grants. The increase in the grant results from the fact that child care expenses of up to $160 per child per month are subtracted from earnings ("disregarded") before calculating the grant. Other "disregards" are also applied to arrive at net earned income, which is then subtracted from the maximum payment level for the appropriate size family to arrive at the actual AFDC grant.

Legislative Clarification Needed

We recommend that the Legislature adopt Budget Bill language specifying how child care fees collected from AFDC parents under the provisions of AB 1162 shall be allocated.

Assembly Bill 1162 requires the Superintendent of Public Instruction to establish regulations which will require AFDC families receiving child care to pay a fee equal to the *maximum* amount of child care expenses which can be disregarded from income in calculating the family's AFDC grant. This fee will be charged regardless of the fee which would otherwise be applicable, based on the family's total income.

Table 47

Hypothetical Example of AFDC Grants, Child Care Payments, and Spendable Income for a Family of Three [a]

	Child Care Fees Based on Monthly Income (Prior to AB 1162)	*Child Care Fees Equal to Income Disregard (After AB 1162)*
Earnings Calculation:		
After tax earnings	$500	$500
Income Disregards:		
Work-related expenses	−75	−75
Child care expenses	0	−160
Net Earnings	$425	$265
AFDC Grant Calculation:		
AFDC Maximum Aid Payment [b]	$526	$526
Net earnings	−425	−265
AFDC Grant	$101	$261
Total Spendable Income [c]	$526	$526

[a] These calculations are based upon a family of three which includes one parent who has been working for more than four months, one child receiving OCD-subsidized child care, and a second child not receiving subsidized child care. These calculations do not reflect delays which may occur between the time expenditures are incurred and AFDC grant amounts are adjusted accordingly. Similar calculations for the first four months of the parent's employment would indicate spendable income of $687 prior to AB 1162 and $634 after AB 1162.

[b] Based on the Maximum Aid Payment for a family of three in 1983–84.

[c] Net earnings plus AFDC grant.

DEPARTMENT OF EDUCATION—Continued

For example, as indicated in Table 47, an AFDC family of three with after tax earnings of $500 per month would pay no fee for child care under current regulations. Under the provisions of AB 1162, however, this family would pay $160 for child care. This amount, however, would not reduce the family's net income; the increased fee would be fully offset by an increase of $160 in the family's AFDC grant (assuming the parent had been working for more than four months, and ignoring any delay between expenditures and AFDC grant adjustments).

The intent of AB 1162 was to increase the fees paid to support subsidized child care (nearly 100 percent General Fund-supported) at the expense of AFDC grants (50 percent federally funded). In other words, because the cost of AFDC grants is shared equally by the state and federal governments, half of the fee increase would be paid by the federal government. The increased General Fund costs to the Department of Social Services, representing the state's share of the AFDC grants, would be reimbursed by an offsetting decrease in funds appropriated to the Department of Education for child care services. As discussed in greater detail below, however, our analysis indicates that it will be difficult to implement this measure in accordance with legislative intent.

At the time this *Analysis* was prepared, the Department of Education was preparing regulations to implement the provisions of AB 1162 regarding AFDC parent fees. The department anticipates that these regulations will take effect July 1, 1984.

The Governor's Budget. The budget assumes that during 1984–85, an average of 4,840 AFDC families per month will be charged an average of $160 for state-subsidized child care. Because the amount of an AFDC recipient's grant is not adjusted until two months after she or he incurs child care expenses, the budget assumes 12 months of child care fee collections by the Department of Education, and 10 months of increased AFDC payments by the Department of Social Services. It is estimated that this will result in increased General Fund costs to the AFDC program of $3,334,000. The budget indicates that this amount will be transferred from the Department of Education to the Department of Social Services.

The budget estimates that the Department of Education will receive reimbursements from additional child care fee collections totaling $9,293,000 during 1984–85. This amount includes the state's share of increased AFDC grants, which will be paid by the Department of Social Services and reimbursed by the Department of Education, $4,003,000 in federal funds, $407,000 in county funds, and $1,549,000 in estimated payments by AFDC recipients *which are not offset by AFDC grant adjustments during the budget year because of the two-month lag.*

Problems. Our analysis indicates that there are two major problems with the implementation of the new AFDC parent fees, as reflected in the budget.

- The budget does not specify how revenues collected from AFDC parent fees shall be allocated, and
- The amount of AFDC parent fees collected may be overestimated in the budget.

Provisions for Use of Fees Unclear. As mentioned above, the budget anticipates reimbursements of $9,293,000 from AFDC parent fees in 1984–85. This amount is included in the local assistance appropriation for child care services in the Budget Bill. It is not, however, included in the Budget Bill's allocation schedule for local assistance funds, and the budget makes no provisions regarding the expenditure of these funds.

The provisions of AB 1162 regarding the use of fees collected from AFDC recipients produce a result which may be contrary to that intended by the Legislature in enacting this measure. The act specifies that the child care agency collecting the fee shall keep 10 percent of the fee to defer its collection costs, and that the State Department of Education shall use the balance of these funds for local assistance. The funds are to be used for additional services provided by the child care agency collecting the fee, or transferred to local child care and employment funds (established by other provisions of AB 1162) to provide child care services to participants in federal job training programs.

The act also provides, however, that SDE shall report to the Department of Finance the full amount of fees collected from AFDC recipients. The Department of Finance is then required to transfer from the General Fund appropriation for child care services an amount equivalent to the amount of fees collected. The amount transferred from the General Fund child care appropriation is to be used first to reimburse the department of Social Services for increased AFDC costs. The balance is to be transferred to the General Fund, "to offset the amount appropriated ... for child care."

The contrary effect of these provisions may be best described with a specific example. If $10 million in child care fees were collected from AFDC recipients, $1 million would be retained by child care agencies to cover their collection costs. The balance, $9 million, would be used to (1) expand child care services provided by the agencies collecting the fees and/or (2) provide new child care services to participants in federal job training programs. In addition, the General Fund appropriation for *all other* child care services would be reduced by $10 million, with $5 million of this amount transferred to the Department of Social Services as reimbursement for increased AFDC costs and the remaining $5 million representing a savings to the General Fund.

Thus, collection of $10 million in child care fees would result in:

- a General Fund savings of $5 million.
- a redistribution among child care programs of $10 million, and
- a *net decrease* of $1 million in the total amount spent on child care services (this amount would instead be spent on collecting child care fees).

We do not believe that this is what the Legislature intended when it enacted AB 1162. Rather, we suspect that the Legislature intended to use the proceeds of the fees, first, to reimburse child care agencies and the Department of Social Services for their increased costs, and second, to expand child care services beyond the levels provided by the Budget Act appropriation, and perhaps reduce General Fund costs for providing existing service levels as well. Thus, we believe the Legislature needs to specify more clearly its intent with respect to the disposition of any child care fees collected.

AFDC Parent Fees May Be Overstated. Assembly Bill 1162 provides that regulations governing the collection of fees from AFDC recipients "shall be designed to ensure that charging the payment does not result in a significant loss in spendable income to the family." Our review indicates that, because of difficulties in designing and implementing regulations which conform to this requirement, the total amount of AFDC parent fees actually collected could be substantially less than the amount indicated in the Governor's Budget.

DEPARTMENT OF EDUCATION—Continued

Without information on a family's eligibility for AFDC and its expected grant, child care providers will not be able to ensure that charging a fee will not result in *some* loss of spendable income. Whether the income loss is significant would depend on the size of the fees charged and the characteristics of the family involved.

The Department of Education faces several problems in its efforts to implement the provisions of the act regarding AFDC parent fees:

- The actual amount of earned income to be disregarded can vary from month to month if a family's earnings or AFDC grant amount changes. Child care agency staff will have to calculate how much each family can pay and still be fully reimbursed by AFDC grant increases.
- AFDC grants are based on income and expenses two months prior to the month in which the grant is received. Thus, child care expenses would not be reimbursed through AFDC grant increases until two months after they were paid, resulting in a loss of spendable income to the AFDC recipient during the first two months fees are charged.
- During the first four months an AFDC parent is employed, at least one-third of the costs of child care would not be offset by a corresponding increase in AFDC grants. This is because federal law provides that an amount equal to $30 plus one-third of earned income (net of child care and other work expenses) is disregarded when calculating AFDC grants during the first four months of employment. Because the child care expense disregard is subtracted first, paying child care fees results in a decrease in the value of the "one-third" income disregard, resulting in a higher net earned income, and in turn a lower AFDC grant.

It is possible that some families may choose to leave the AFDC program rather than pay substantially increased child care fees. Because of the two-month delay between child care expenditures and AFDC grant adjustments, a parent receiving a small AFDC grant may find that his or her family's spendable income during the first months that child care fees are imposed would be higher if he or she were to leave the AFDC program and instead pay child care fees determined by his or her actual income.

The act does not provide any funds to the Department of Education for the administration of this requirement. If, however, the calculations used to determine family fees are complex and parents experience some loss in spendable income as a result of the new fees, disputes and administrative appeals are likely and may result in increased workload for SDE administrative staff.

Recommendation. Because AB 1162 is unclear regarding the allocation of funds collected through AFDC parent fees, the Legislature needs to determine how these funds will be allocated—if indeed any funds are collected under this provision of the measure. Our analysis indicates that it would be reasonable to (1) use 10 percent of the fees collected to reimburse the child care agencies collecting the fees and (2) reimburse the Department of Social Services for the General Fund portion of its increased AFDC costs. The issue which the Legislature must also decide, however, is whether the balance of these funds (approximately 40 percent of the fees collected) should be used to increase child care services or to generate General Fund savings, or some combination of the two. This is a policy decision for the Legislature to make, in light of its priorities for the expenditure of revenues generated by the act.

Accordingly, we recommend that the Legislature adopt Budget Bill language specifying that (1) 10 percent of the fees collected from AFDC parents shall be used to reimburse child care agencies for the costs they incur in collecting these fees and (2) the Department of Social Services shall be reimbursed for the General Fund portion of increased AFDC costs. We further recommend that the Legislature specify in the Budget Bill how the balance of the fees collected pursuant to subdivision (f) of Section 8263 of the Education Code shall be allocated.

c. Reimbursement Rate Factors

Child care and development agencies provide subsidized child care services through contracts with OCD. These contracts specify for each agency the maximum reimbursable amount (MRA) of program expenditures and the expected levels of service in terms of average daily enrollment (ADE) and days of operation. Assigned daily reimbursement rates, which vary widely among agencies, are determined by dividing the maximum reimbursable amount by an adjusted number of full-time child days of enrollment provided by a contracting agency.

The number of full-time child days of enrollment reported by an agency is calculated by multiplying the number of children enrolled by adjustment factors for (1) the number of hours of care each child receives daily and (2) the enrollment of infants and children with special needs.

Prior to the 1983 Budget Act, a full-time child day of enrollment was defined as 6½ hours per day and was reimbursed at the assigned daily rate. A half-time day of enrollment was defined as less than 6½ hours and was reimbursed at 50 percent of the assigned daily rate.

The 1983 Budget Act specified four new reimbursement rate factors effective for the 1983–84 fiscal year only. As a result, child care agencies are receiving reimbursements for child care services provided in the current year based on the following schedule:

- fewer than 4 hours of service daily: 50 percent of the full-time daily rate,
- from 4 to under 6½ hours: 75 percent of the full-time daily rate,
- from 6½ to under 10½ hours: 100 percent of the full-time daily rate, and
- 10½ hours and over: 150 percent of the full-time daily rate.

Thus, the new reimbursement rate factors provided by the 1983 Budget Act have resulted in an increase in reimbursements for services to those children enrolled for between 4 and 6½ hours, or over 10½ hours, daily. Because the maximum reimbursable amount (MRA) child care agencies may receive has not been increased, the effect of these new factors is to decrease the number of children a child care agency must serve in order to earn the MRA specified in its contract (to the extent that the agency qualifies for the higher 75 percent and 150 percent reimbursement factors).

SDE Report. In the *Supplemental Report to the 1983 Budget Act,* the Legislature directed the Department of Education to study and report on the fiscal and programmatic effects of the new reimbursement factors. In response to this requirement, the Department of Education conducted a survey of 66 randomly-selected child care agencies in the fall of 1983, to identify the number of children enrolled and the hours of service provided. Based on these survey data, SDE determined that the new reimbursement factors could result in decreases in child days of enrollment (as computed under previous law) of 6.0 percent to 11.6 percent, depending

DEPARTMENT OF EDUCATION—Continued

on the type of child care program. The maximum potential reductions estimated for each program are indicated in Table 48.

Table 48
Estimated Maximum Potential Service Reductions Resulting From 1983 Budget Act Reimbursement Rate Factors

Program	*Maximum Potential Decrease In Child Days of Enrollment*
Campus Child Care programs	10.6%
Family Child Care programs	11.5
Center-based child care programs regulated pursuant to Title 22	6.0
Alternative Payment programs	8.9
Migrant Child Care programs	11.6
General Child Care programs operated by school districts and county offices of education	10.9
General Child Care programs operated by private agencies and other public entities	8.1

The Department of Education indicated that actual enrollment reductions probably will be less than the maximums indicated in the table because (1) reductions will occur only slowly through attrition and (2) child care provider agencies face community pressure to serve more eligible children than the minimum number which would enable them to earn the MRAs specified in their contracts with OCD.

The department indicates that two groups of children are most likely to require services reimbursed at the new 75 percent and 150 percent rates: school-age children and children requiring care for extended periods of time each day (including children of migrant farm workers). As a result, SDE projects that, over an extended period of time, the new reimbursement rates could result in the provision of additional services to these two groups. The department also predicts that child care agencies will continue to serve more children than the minimum required to earn the MRAs specified in their contracts, and that any reduction in child care services provided will result from fiscal constraints such as collective bargaining agreements and increases in program operating costs.

The Office of Child Development has established a Child Care Reimbursement Rate Consortium to provide the Department of Education with advice from all types of child care providers. In recent months, the consortium has been reviewing several issues relating to the reimbursement rate structure for subsidized child care—including the new reimbursement factors specified in the 1983 Budget Act. The department indicates that it will make its recommendations to the Legislature regarding whether the new factors should continue to be used, following review of the consortium's final report.

Conclusion. To the extent that the new reimbursement factors provide additional incentives for child care providers to serve certain groups of children (such as school-age children or children needing care for extended hours), and the total amount of funds appropriated for child care local assistance is not increased, services provided to other groups of children may decline. Alternatively, agencies which previously provided services only to groups now reimbursed at the higher 75 percent or 150 percent rates may choose to serve fewer children, while maintaining the same level of contract earnings. Thus, while we cannot predict whether the net effect of these changes will be to increase or decrease the number of *children* receiving services, it is likely that the total *hours* of care provided will decrease by an unknown amount.

On the other hand, our review of contract earnings data for 1982–83 indicates that a significant majority of child care agencies currently serve more children than the numbers required to earn their maximum contract reimbursement. For most agencies, the total amount of service provided does not exceed 110 percent of the minimum number of child days of enrollment specified by the agency's contract. Because child care agencies have served more children than the minimum required to earn their full contract MRA using the old reimbursement factors, we cannot predict the effect of the new reimbursement factors which serve to reduce that minimum.

At this time, we do not have sufficient information on which to base a recommendation regarding continuation of the reimbursement factors specified in the 1983 Budget Act. We will continue to monitor the levels of services provided by child care agencies under contracts with OCD, and we will review the recommendations contained in the final report submitted by the Child Care Reimbursement Consortium. As more information becomes available regarding the impact of the new reimbursement factors, we will make recommendations to the Legislature as appropriate.

d. School Age Parenting and Infant Development Programs

The School Age Parenting and Infant Development (SAPID) program provides funds to 49 school districts to finance services for secondary school-age parents and their children. The child development component of SAPID allows school-age parents to continue progress toward a high school diploma and provides training for students interested in a child care career. In addition, parent education is offered at the participating high school for all interested students and is a requirement for school-age parents with children enrolled in the child development program.

School districts operate SAPID programs under agreements with the Office of Child Development which specify a maximum reimbursable amount (MRA) for each district. The actual amount of reimbursements earned by each school district is based on maximum unit rates for each parent, child, or pregnant student enrolled in the program, adjusted by an attendance factor for each fiscal year quarter. Per-person reimbursement rates are reduced if attendance (including excused absences) falls below 65%. Total reimbursements may not exceed a district's actual and allowable costs for the program.

The budget proposes expenditures of $4,772,000 from the General Fund for the SAPID program in 1984–85.

Uneven Program Utilization

We recommend that the Department of Education report to the fiscal committees regarding (1) the reasons for differences between the level of service contracted for and provided by school districts in the School Age Parenting and Infant Development program and (2) steps taken by the Office of Child Development to target more effectively local assistance funds for this program in the budget year.

Our review of contract earnings data for the 1982–83 fiscal year indicates that over half of all school districts administering SAPID programs failed to provide the level of services which would allow them to earn the full

DEPARTMENT OF EDUCATION—Continued

amount of the MRA specified in their contracts. At the same time, a small number of districts have provided services and expenditures in excess of the maximum reimbursable amounts established by their contracts with OCD, and appear to be subsidizing SAPID programs through the use of district general education funds.

As a result of the low levels of service provided by most districts, approximately 14 percent of the total funds allocated to school districts during 1982–83 for SAPID programs were not earned by those districts. In some cases school districts did not receive the full MRA established by contracts with OCD, while in other cases districts now must return to OCD the amount of overpayments made during the 1982–83 year.

There are various possible explanations for the low service levels under the SAPID programs operated by some school districts, including the following:

- School-age parents participating in the program may have high rates of unexcused absences or may drop out of school before the end of the school year;
- The amount of services needed for school-age parents in some school districts may vary widely from year to year;
- Some districts may have established contracts with OCD which set maximum reimbursement amounts larger than the amounts needed to provide services in those districts; and
- Some districts may not be making adequate efforts to enroll school-age parents in need of services.

In addition, OCD has indicated that, while the total contract amount (MRA) for each district has been increased to reflect any COLA granted by the Legislature, the per-pupil reimbursement rates in the SAPID program have not been properly adjusted in all years. As a result, in order to earn its full contract amount, each district must increase the number of children served in its SAPID program. Nevertheless, it is not clear why some districts appear to be providing as little as 50 percent of the services necessary in order for the district to earn its maximum reimbursable amount.

Reports Needed. Because of the way in which funds for the SAPID program are being allocated, school districts are not providing program services to all students who could be served within current funding levels for this program. Given (1) the importance of these services to school-age parents who might otherwise be unable to complete high school and (2) the apparent under-utilization of SAPID funds in some school districts, and over-utilization in others, we believe that the Office of Child Development should target funds for this program during the budget year so as to maximize the number of students receiving services.

Better utilization of current funding may be achieved by steps which include (1) reducing the maximum reimbursable amount specified in contracts with some school districts and redirecting funds to districts with greater needs, (2) assisting participating school districts to increase enrollment and attendance in SAPID programs, and (3) utilizing carryover funds to provide one-time increases in SAPID services in school districts which have demonstrated high levels of need for program services. Carryover funds might also be redirected to alternative payment programs which could provide vendor payments for child care services on behalf of school-age parents.

Accordingly, we recommend that the Department of Education report at the budget hearings regarding (1) the reasons for differences between the level of service contracted for, and provided by, school districts in the School Age Parenting and Infant Development program and (2) steps that will be taken by the Office of Child Development to target more effectively local assistance funding for this program in the budget year.

e. Child Care Facilities

As adopted by the Legislature, AB 70 (Ch 1302/83) contained an appropriation of $2.2 million for (1) loans to renovate and repair child care facilities and (2) acquisition and lease of relocatable child care facilities. Before signing the bill, the Governor reduced this appropriation to $1.1 million. The State Allocation Board (SAB) is responsible for allocating these funds, which are in addition to $1.04 million in funds that are still available from an earlier appropriation for the construction and lease of relocatable facilities (Ch 798/80 and Ch 209/82).

The budget does not propose any additional funds for child care facilities in 1984–85.

The Department of Education will use both the $1.04 million in carryover funds and the $1.1 million provided by AB 70 to provide approximately 28 relocatable child care facilities in 1983–84, at an average cost of approximately $80,000 per unit for construction, site preparation, furnishing, and transportation. The Office of Child Development and the State Allocation Board have developed lists of child care and development agencies which will receive relocatable facilities. The first 15 facilities will be used primarily for rural and infant child care, and the facilities provided by funds from AB 70 will be used primarily for migrant child care.

Child care agencies receiving relocatable facilities will pay the State Allocation Board a lease rate based upon the intensity of use, the location, and cost of the facilities. Lease revenues are continuously appropriated to the State Allocation Board to purchase additional relocatable child care facilities. Lease rates are prorated, with payments based upon the number of months the facility is actually in use. The State Allocation Board has begun soliciting bids for site preparation and construction of the first 15 facilities, and expects to solicit bids for the remaining facilities in the spring of 1984.

Expenditure Authority Needed for Routine Maintenance

We recommend that the Legislature adopt Budget Bill language permitting child care and development agencies to spend contract funds to (1) renovate or repair child care facilities to meet state and local health and safety standards or (2) repay loans from the revolving loan fund established for this purpose.

A major issue concerning child care facilities relates to expenditures for deferred maintenance and minor capital outlay. Section 8277.7(c) of the Education Code specifies that the agencies leasing relocatable child care facilities will be required "to undertake all necessary maintenance, repairs, renewal, and replacement to ensure that a project is at all times kept in good repair, working order, and condition." Yet, the statement of funding terms and conditions issued by the Office of Child Development specifies that capital outlay expenditures, including site and building improvements and building fixtures, are not reimbursable. If, for example, the roof on a relocatable child care facility needs replacement or major repairs, the child care agency leasing that facility is responsible for financ-

DEPARTMENT OF EDUCATION—Continued

ing the work but may not use OCD program funds for this purpose.

Chapter 798, Statutes of 1980 (SB 863), as amended by Ch 209/82 (SB 913) established a revolving loan account to provide interest-free loans to child care contracting agencies for minor capital outlay expenditures to renovate and repair child care facilities to meet state and local health and safety standards. Repayments to this fund, which has a current balance of approximately $235,000, are to be made over a period of up to 10 years by reducing the agency's contract for child care services by an amount equal to a depreciation allowance on the renovation or repair.

Because costs to repay loans from the revolving fund are not considered to be allowable costs under the provisions of OCD's funding terms and conditions, an agency taking out such a loan must repay it by generating revenues in addition to those earned through its child care contract, through fundraising or other sources. As a result, very few child care agencies have made use of the fund—and no loans have been made from the fund since 1981–82.

At the time this *Analysis* was written, OCD had received requests for loans from the fund totaling $34,000. The OCD indicated that requests for loans probably would increase substantially if child care agencies could use contract funds to make repayments without having to generate revenues from other sources.

The Budget Bill specifies that the State Department of Education (SDE) must obtain approval from the Department of Finance and the Department of General Services for the form and content of contracts between SDE and local agencies which provide child care services and facilities relating to those services. The statement of funding terms and conditions currently aproved by these departments appears to be inconsistent with the Legislature's intent that: (1) child care agencies be responsible for maintaining and repairing relocatable facilities leased from the state and (2) child care agencies obtain loans from the revolving loan fund to renovate and repair child care facilities, and repay those loans from future contract amounts. The Department of Education may not, however, revise its statement of funding terms and conditions to permit minor capital outlay expenditures or loan repayments from contract funds, without the approval of the Deparment of Finance and the Department of General Services.

To correct this inconsistency, we recommend that the Legislature adopt the following Budget Bill language:

> "Repayments of loans made pursuant to Section 8277.2 of the Education Code, or minor capital outlay expenditures by a local child care and development agency to renovate or repair child care facilities to meet state and local health and safety standards shall be reimbursable as actual and allowable costs, not to exceed the maximum amount established by the contract between the Office of Child Development and the contracting agency. Any expenditures in excess of five hundred dollars must be approved in writing in advance by the Office of Child Development."

f. No Savings Reported From Data Processing Systems

We recommend that the Department of Education report during budget hearings on (1) the improvements in fiscal accountability and program compliance achieved as a result of implementing the PROMIS,

AIMS, and CALSTARS data processing systems and (2) the reasons for increases in operating costs and staffing in its accounting office.

The *Supplemental Report to the 1983 Budget Act* directed the Department of Education to report by December 1, 1983, on the dollar and personnel-year savings which have resulted from the implementation of the AIMS, CALSTARS, and PROMIS data processing systems within the Child Development and Nutrition Services Division (CDNS). These data processing systems were designed to provide an integrated fiscal management system for all programs in CDNS—which includes the Office of Child Development (OCD), the Office of Surplus Property (OSP), and the Office of Child Nutrition Services (OCNS). The three offices in the division deal with many of the same local agencies, and use similar techniques and procedures to ensure compliance with the same or closely-related regulations.

The original feasibility study report which authorized the development of PROMIS (Program Management Information System) indicated that implementation of the system would result in annual savings of $461,000 and 6.3 personnel-years. The PROMIS system was later redesigned to reflect the adoption of CALSTARS (California State Accounting and Reporting System) and AIMS (Assessment, Improvement, and Monitoring Information System), and some of the procedures originally intended for PROMIS were incorporated into CALSTARS.

In January 1984, the Department of Education reported that there are no personnel savings from these data processing systems at this time. Specifically, the department reported that:

- The major objectives of PROMIS were abandoned due to implementation of the CALSTARS system.
- The AIMS system was not designed to generate cost savings, but rather to increase CDNS effectiveness in monitoring the compliance of local agencies with applicable federal and state regulations.
- CDNS will reassess any cost reductions that may have resulted during the post-implementation audit of AIMS, which is due in April 1984.
- CALSTARS was intended to provided improved accountability and more timely information, rather than to achieve direct savings.
- Since implementation of the CALSTARS system began in 1980–81, the operating costs of the department's accounting system have increased from $221,000 to an estimated $1,000,000 in 1983–84, and the number of staff has increased from 58.2 to 69.0 authorized positions.

Time did not permit us to thoroughly review the department's report before this *Analysis* was prepared. We believe, however, that the Department of Education should be prepared to comment during budget hearings regarding (1) the improvements in fiscal accountability and program compliance achieved as a result of implementing PROMIS, AIMS, and CALSTARS and (2) the reasons for the large increase in the operating costs and staffing of the department's accounting office. We will review the findings of the AIMS post-implementation audit in April 1984, and will prepare comments and recommendations for the Legislature as appropriate.

3. Foster Youth Services (Item 6100-119-001(a))

We recommend approval.

The budget proposes that $782,000 be made available to provide special services to foster children in four school districts in California—Elk Grove

DEPARTMENT OF EDUCATION—Continued

Unified, Mount Diablo Unified, Sacramento City Unified, and San Juan Unified. This is $23,000—or 3 percent—above the level of support provided during the current year. No funds are proposed for the expansion of foster youth services to other school districts.

Our review indicates that this program is serving its intended purpose. Because the budget proposes to continue the legislatively-authorized level of funding for this program, we recommend that the requested amount be approved.

4. Youth Suicide Prevention Program (Item 6100-222-001)

We recommend approval.

Chapter 750, Statutes of 1983 (SB 947), created the Youth Suicide School Program Fund and declared legislative intent that $300,000 be appropriated to this fund in the 1984 Budget Act for the development of a statewide youth suicide prevention school program, through the establishment of demonstration programs in two counties. The act provides that the State Department of Education is to administer the Youth Suicide School Program Fund, using up to 5 percent of the fund balance for its administrative costs. The department is also required to submit reports annually on the effectiveness and implementation of the program.

The budget proposes that $300,000 be appropriated from the General Fund for this program in 1984–85. The budget also provides $15,000 in the department's main support item (6100-001-001) for administrative costs associated with the program. Thus the budget provides a total of $315,000 for Youth Suicide Prevention.

Under the terms of Ch 750/83, two demonstration youth suicide prevention programs are to be established in San Mateo and Los Angeles counties by June 30, 1986. The programs, which will be conducted by suicide prevention and crisis centers designated by each county, may include classroom instruction designed to achieve the following objectives:

- encourage sound decision-making and promote ethical development,
- increase pupils' awareness of the relationship between drug and alcohol use and youth suicide,
- teach pupils to recognize signs of suicidal tendencies, and
- inform pupils of available community youth suicide prevention services.

The demonstration programs may also support other school- or community-based suicide prevention programs, such as:

- positive peer group programs,
- telephone "hotline" services,
- programs to collect data on youth suicide attempts,
- intervention services, and
- programs to train parents and teachers.

The designated suicide prevention and crisis centers will serve as coordinating centers for the planning and development of a statewide youth suicide prevention school program, in cooperation with the State Department of Education. Planning and development of the statewide program is to be completed by June 30, 1985.

Our analysis indicates that the funding level proposed in the budget would support planning for and development of the demonstration programs in the two counties ($300,000), as well as cover administrative costs of the State Department of Education ($15,000). Because the budget proposes to provide approximately the legislatively-approved level of funding for this program, we recommend that the requested amount be approved.

B. ADULT EDUCATION
(Items 6100-156-001, 6100-156-890, and 6100-158-001)

The Office of Adult, Alternative, and Continuation Education Services is responsible for managing (1) state- and federally-funded programs for adults and (2) general education development (GED) testing. Adult education ADA is estimated to be 160,759 in 1983–84.

Funding. Table 49 shows the state operations and local assistance funding for adult education in the prior, current, and budget years.

Table 49
K-12 Adult Education Funding
1982–83 through 1984–85
(dollars in thousands)

	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Change Amount*	*Change Percent*
State Operations:					
General fund	$309	$292	$303	$11	3.8%
Federal funds	589	747	762	15	2.0
Reimbursements/Special Deposit Fund	112	129	134	5	3.9
Subtotals	$1,010	$1,168	$1,199	$31	2.7%
Local Assistance:					
General fund	$145,227	$159,993	$170,702	$10,709	6.7%
Federal funds	5,554	9,288	9,288	—	—
Reimbursements	76	91	91	—	—
Subtotals	$150,857	$169,372	$180,081	$10,709	6.3%
Totals	$151,687	$170,540	$181,280	$10,740	6.3%
Positions	18.6	18.5	18.5	—	—

1. State Adult Education Program (Items 6100-156-001 and 6100-158-001)

The budget proposes a General Fund appropriation of $171 million for adult education local assistance (including adults in correctional facilities) in 1984–85. This represents an increase of $10.7 million, or 6.7 percent, over estimated expenditures in the current year. (The level of estimated current-year expenditures assumes the enactment of a $1.6 million deficiency appropriation for adult education.) The increase proposed for 1984–85 consists of (1) $4.0 million to fund a 2.5 percent increase in enrollment, as authorized by SB 813, (2) $1.8 million to fund an equalization provision in SB 813 (discussed previously in the overview section), and (3) $4.9 million for a 3 percent COLA. The proposed 3 percent COLA is in lieu of the 6 percent statutory amount. Providing full funding for the statutory COLA would require an augmentation to the budget of $4.9 million.

The budget also proposes $303,000 from the General Fund for state operations associated with the adult education program, an increase of 3.8 percent over estimated current-year expenditures.

Deficiencies in 1983–84

We project two funding deficiencies for the adult education program in 1983–84:

- $1.6 million, because the SB 813 appropriation is not sufficient to fund the statutory COLA authorized by the act, and

DEPARTMENT OF EDUCATION—Continued

- $3.7 million, because the Governor vetoed funds related to the enrollment of pupils in home economics and health and safety education courses.

Statutory COLA. Senate Bill 813, in conjunction with the 1983 Budget Act, provided sufficient funding to grant adult education a 6 percent COLA in 1983–84—the same increase as that provided for all other categorical programs except special education, which received an 8 percent COLA. In another section of the act, however, SB 813 provides that adult education programs shall receive a COLA of $70 per ADA in 1983–84. This amount represents a *7.4 percent* increase.

The Department of Finance estimates that an additional $1.6 million would be needed to fund the 7.4 percent COLA at $70 per ADA, and the Governor proposes that these funds be included in a deficiency appropriation for 1983–84 and in the base level of expenditures for 1984–85.

Governor's Veto. The Education Code (1) limits state-funded enrollment growth in adult education to 2.5 percent annually and (2) authorizes state funding of adult education courses in 10 subject matter areas, including home economics and health and safety education. In the 1983 Budget Act, the Governor vetoed $3.7 million from the appropriation for adult education in order to eliminate funding for home economics and health and safety education.

Because current law authorizes funding for home economics and health and safety education courses, the Superintendent of Public Instruction has determined that ADA claimed for attendance of pupils in these courses is eligible for state funds, despite the Governor's veto. In other words, the veto did not affect the authorized enrollment growth in state-funded adult education ADA; it only reduced the amount available to pay for that growth by $3.7 million, thereby creating an estimated deficit of 2.3 percent in program funding.

The budget does not propose a deficiency appropriation to cover this deficiency. Instead, the Governor proposes (1) that the Legislature adopt control language and trailer bill language to prohibit state funding for enrollment in home economics and health and safety education and (2) to continue $3.7 million reduction in the funding base for the adult education program.

Deficiency Appropriation for COLA Not Justified

We recommend that the Legislature (1) reject the Governor's proposed deficiency appropriation of $1.6 million for adult education in 1983–84 because it would provide a higher COLA for adult education than was provided for other categorical programs and (2) reduce the proposed appropriation for adult education in 1984–85 by $1.6 million because the budget is based on the assumption that the Legislature will enact the proposed deficiency appropriation. (Reduce Item 6100-156-001 by $1,600,-000.)

Although SB 813 appropriated funds for a 6 percent COLA for adult education in 1983–84 and provides for a 6 percent COLA for adult education in 1984–85 and annually thereafter, it is not clear whether the provision for a COLA of $70 per ADA in 1983–84 represents a technical error or the Legislature's intent that adult education receive a 7.4 percent increase in the current year. Absent any indication of the Legislature's intent, we can find no analytical justification for providing a larger COLA to adult education than the 6 percent provided for comparable categorical education programs in 1983–84. Consequently, we recommend that the Legislature reject the Governor's proposed deficiency appropriation for adult education in 1983–84 and reduce the proposed 1984–85 appropriation accordingly (since the $1.6 million is built into the base).

Elimination of Home Economics and Health and Safety Courses

We recommend that the Legislature adopt Budget Bill language reducing authorized state-funded enrollment growth in adult education from 2.5 to 0.2 percent in 1984–85 in order to reflect the budget proposal to eliminate home economics and health and safety education courses.

The Governor vetoed funding for the attendance of pupils in home economics and health and safety education courses on the basis that most of the courses in these areas are either recreational or can be taken elsewhere. We reached a similar conclusion in the *Analysis of the 1983–84 Budget Bill.* As we explained, however, the net effect of the veto was to create a program deficit rather than eliminate home economics and health and safety education courses. We recommend that the Legislature provide a deficiency appropriation of $3.7 million for 1983–84 to eliminate the deficit resulting from the Governor's veto of funding for home economics and health and safety courses. This would be consistent with the Legislature's actions on the 1983 Budget Act.

Because we find justification for the proposal to eliminate home economics and health and safety education courses, we further recommend that the Legislature adopt the budget proposal to prohibit state funding for ADA claimed for home economics and health and safety education courses *in 1984–85.* In order to avoid a program deficit in the budget year, this should be accompanied by Budget Bill language reducing total authorized enrollment growth in adult education to reflect elimination of home economics and health and safety courses. We therefore recommend that the Legislature reduce authorized state-funded adult education enrollment growth in 1984–85 from the proposed 2.5 percent (the statutory entitlement) to 0.2 percent.

High School Pupils Funded at Twice the Adult Rate

We recommend that the Legislature adopt Budget Bill language providing that ADA claimed by school districts for the attendance of secondary school pupils concurrently enrolled in adult education programs shall be funded at each district's adult revenue limit, because the higher rate of funding provided by current law (regular base revenue limit) is not necessary to support the program, for a General Fund savings of $6.1 million. (Reduce Item 6100-101-001 by $6,106,000.)

Because the per-pupil cost of supporting adult education programs is lower than the cost of regular school programs, the state funds adult schools at a substantially lower rate. In fact, the statewide average revenue limit for adult schools is about $1,000 per ADA, compared to approximately $2,100 per ADA in unified school districts.

Under current law, high school pupils are permitted to enroll in adult education courses. Current law also provides that adult education ADA attributable to these pupils shall be funded at the district's base revenue limit for its regular high school program.

Our analysis indicates that the higher rate of funding provided for high school pupils concurrently enrolled in adult schools is unnecessary, for the following reasons:

DEPARTMENT OF EDUCATION—Continued

- The cost of educating concurrently enrolled pupils in adult schools should not differ from the cost of educating adults. Adult school classes in which high school pupils are enrolled consist primarily of adults. Many adult schools, moreover, offer comprehensive programs without enrolling any high school pupils.
- Funding high school pupils at the adult rate is not likely to have a significant impact on the adult schools' programs. In 1982–83, concurrently enrolled pupils represented only about 4 percent of total enrollment in adult schools.

Accordingly, we recommend that concurrently enrolled pupils be funded at the district's *adult* revenue limit, rather than at its regular high school limit, for an estimated General Fund savings of $6.1 million. This recommendation can be implemented by reducing the school district apportionment item (6100-101-001) by $6.1 million and adopting the following Budget Bill language:

"Notwithstanding Education Code Section 42238.5, ADA claimed for adult school attendance of pupils concurrently enrolled in adult education courses shall be funded at each school district's adult revenue limit."

2. Federal Adult Basic Education Act (Item 6100-156-890)

We recommend approval.

The budget proposes $9.3 million from the Federal Trust Fund for local assistance in adult education, an amount equal to estimated current-year expenditures. The budget also proposes $762,000 in federal funds for state operations, an increase of 2.0 percent. These funds are provided under the federal Adult Basic Education Act to support basic skills instruction for adults with less than an eighth grade level of education. Our review indicates that this program is serving its intended purpose, and therefore we recommend that the requested amount be approved.

3. Adults in Correctional Facilities (Item 6100-158-001)

We recommend approval.

The budget proposes to continue the 1983–84 level of General Fund support ($1.3 million) for adults in correctional facilities, adjusted for a 3 percent inflation increase ($38,000). Our analysis indicates that this program is serving its intended purpose and, accordingly, we recommend that the requested amount be approved.

C. OFFICE OF SURPLUS PROPERTY (Items 6100-001-680)

California's Office of Surplus Property (OSP) processes and distributes food commodities and donated hardware to eligible agencies throughout the state. The office's *surplus commodities* component distributes federally-donated food to public and private nonprofit agencies, including schools, child care centers, and food programs for the elderly. The budget estimates that OSP will distribute food commodities with a fair market value of $100 million during 1984–85. The office's *surplus personal property* component acquires and distributes hardware, vehicles, equipment, and other property to eligible public and private nonprofit agencies. The office also coordinates the processing of surplus items into other usable products. (For example, surplus copper wire segments are made into copper tubing, and surplus vegetable oil and egg products are made into mayonnaise.) Rec. DOF submit, prior to completion of budget hearings, a more accurate budget request for OS & that the Legislature adopt SRL requiring independent evaluation of OSP by 11/1/84.

The Office of Surplus Property is entirely self-supporting; local agencies which receive surplus properties are assessed processing and handling charges that are sufficient to cover 100 percent of the office's costs. Table 50 shows the value of surplus property distributed, as well as OSP's expenditures and revenues for the food commodities and hardware programs, from 1981–82 to 1983–84.

Table 50
Office of Surplus Property
Distribution Activity
1981–82 through 1983–84

Program	*Actual 1981–82*	*Actual 1982–83*	*Estimated 1983–84*
1. *Commodity (Food) Program*			
Total Value of Food Distributed	$61,172,904	$81,789,332	$90,000,000
(Number of Agencies Actively Participating)	(2,622)	(2,555)	(2,750)
Expenditures	7,015,690	8,286,052	9,845,000
Revenue	13,878,108	11,528,833	0
2. *Personal Property (Hardware) Program*			
Total Acquisition Cost of Property	$16,075,144	$18,504,402	$19,000,000
(Number of Agencies Actively Participating)	(1,000)	(1,000)	(1,000)
Expenditures	2,222,043	2,296,372	2,365,264
Revenue	1,843,069	1,082,170	1,082,170
Surplus Property Revolving Fund balance at end of fiscal year	$18,745,000	$21,352,000	$11,000,000

As shown in Table 50, OSP will distribute an estimated $90 million in surplus food commodities and $19 million in surplus personal property during the current fiscal year.

In addition to administering the ongoing surplus personal property and food commodities programs, the Office of Surplus Property (OSP) has been designated as the agency responsible for distributing federally-donated agricultural commodities provided by the Emergency Jobs Act of 1983 (Public Law 98-8), and expanded by Public Law 98-92. The OSP receives federal funds to reimburse state and local distribution costs under this program.

Table 51 shows the Office of Surplus Property's expenditures and funding, as indicated in the Governor's Budget, for the prior, current, and budget years. The expenditures and funding shown in this table are substantially higher than the amounts shown in Table 50, which reports OSP distribution activity. OSP has indicated that revenues and expenditures are purposely overbudgeted to reflect the maximum revenue and expenditure level which OSP could possibly realize during a given fiscal year. The amounts indicated in Table 50 reflect a more realistic estimate of actual expenditures and revenues for the current fiscal year.

As shown in Table 51, the budget proposes aggregate expenditures of $26,998,000 for the Office of Surplus Property in 1984–85—a decrease of $3,531,000, or 11.6 percent, below estimated 1983–84 expenditures. The amount appropriated for the office will increase by the amount of any salary or benefit increase approved for the budget year. This reduction in the budget request for OSP primarily reflects the proposed transfer of the hardware program to the Department of General Services (discussed below). The budget does not include any federal funds or expenditures for operation of the emergency food distribution program in 1984–85.

DEPARTMENT OF EDUCATION—Continued

Table 51
Office of Surplus Property
Expenditures and Funding
1982–83 through 1984–85
(dollars in thousands)

	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Change Amount*	*Change Percent*
State Operations	$11,698	$29,239	$26,998	–$2,241	–7.7%
Local Assistance	—	1,290	—	–1,290	–100.0
Totals	$11,698	$30,529	$26,998	–3,531	–11.6%
Surplus Property Revolving Fund	*$11,542*	*$26,496*	*$26,998*	*$502*	*1.9%*
Reimbursements	*17*	—	—	—	—
Federal Trust Fund	*139*	*4,033*	—	*–4,033*	*–100.0*
Personnel-years	148.8	167.2	113.1	–54.1	–32.4

1. Further Reduction of Excess Reserves Justified

We recommend that the Legislature adopt supplemental report language directing the Department of Education to (1) achieve and maintain a target level of reserves in the Surplus Property Revolving Fund equal to $7 million and (2) report quarterly to the Legislature on the balance in the fund.

In recent years, the Department of Education has failed to monitor adequately revenues and expenditures under the surplus food commodities program. As a result, the reserve balance in the Surplus Property Revolving Fund increased to approximately $18.7 million at the end of 1981–82 and $21.4 million at the end of 1982–83.

A reserve balance in the Surplus Property Revolving Fund is necessary because payments of service and handling charges by agencies receiving commodities may lag several months behind OSP expenditures for operating costs and food processing contracts. A reserve balance also permits OSP to enter into processing agreements on short notice when increased supplies of food commodities become available.

Existing law provides no ceiling on the reserve balance which may be maintained in the Surplus Property Revolving Fund. A growing balance, however, indicates that schools and other agencies receiving commodities are being charged more than the costs to OSP to acquire, process, and distribute those commodities.

The budget indicates that OSP's actual expenditures for state operations and food processing contracts during 1981–82 and 1982–83 were $11.5 million and $11.7 million, respectively. (These amounts included approximately $2.2 million in expenses for the surplus personal property (hardware) program, while expenditures in the food program averaged less than $9 million per year). Consequently, the reserve balance at the end of 1981–82 was equal to approximately 20 months of operating and food processing costs. At the end of 1982–83, the reserve balance was equivalent to 22 months of OSP expenditures.

The USDA previously has established a target for the fund's reserve of $7 million—or, alternatively, an amount equal to approximately six months of operating and processing expenses. The USDA also has indicated that 83 percent to 87 percent of the total funds due to OSP are received within 90 days. Given this cash flow, a six-month reserve should be more than adequate to accommodate extended delays in the receipt of funds for foods under processing contracts, and to provide lead time for adjusting service and handling charges when analysis of expenditures justifies such a move.

In last year's *Analysis*, we reported that the reserve balance in the Surplus Property Revolving Fund at the end of 1981–82 was estimated at $10 million. Based on this report, the Legislature directed OSP, in the *Supplemental Report to the 1983 Budget Act*, to reduce its service and handling charges during 1983–84 such that $5 million of excess reserves in the Revolving Fund would be refunded to recipient agencies. Because the actual reserve balance at the end of 1982–83 was more than $21 million, compliance with this directive would still result in a fund balance of approximately $16 million.

In response to direction from the Legislature and the USDA, the Office of Surplus Property suspended, effective July 1, 1983, all service and handling charges to recipient agencies. As a result, (1) schools and other agencies receiving commodities from OSP currently pay no charges for these commodities and (2) OSP is reducing its reserve by approximately $2.5 million per calendar quarter.

OSP estimates that service and handling charges will be reestablished by July 1, 1984, when the reserve balances will equal approximately $11 million. The rates at that time will be set based upon financial data for 1983–84. The OSP also indicates that it has initiated a plan to review on a quarterly basis expenditures and revenues under the donated food program so that appropriate charges are assessed to recipient agencies.

The budget proposes to maintain a reserve balance of $11 million in the Surplus Property Revolving Fund at the end of both the current and budget years. In our judgment, this level is still too high. We believe the target level of $7 million established by USDA would be a more reasonable reserve balance for the fund.

Accordingly, we recommend that the Legislature adopt the following supplemental report language to provide for a reduction in this balance to $7 million.

> "It is the intent of the Legislature that the Office of Surplus Property (OSP) shall reduce its service and handling charges in 1984–85 such that a reserve balance of not more than $7 million is achieved and maintained in the Surplus Property Revolving Fund. The Department of Education shall report to the Joint Legislative Budget Committee and the fiscal committees on July 15, 1984, and quarterly thereafter, the average reserve balance in the Surplus Property Revolving Fund during the preceding calendar quarter."

2. Warehouse Conversions

We recommend that the Legislature adopt supplemental report language directing the Department of Education to report, by November 1, 1984, the actual cost savings resulting from the conversion of warehouse space in Sacramento and Pomona to refrigerated storage, and the amount of such savings reflected in reduced service and handling charges.

The conversion to cool storage of 40,000 square feet of space in OSP's Sacramento warehouse was completed in December 1983. The Office of Surplus Property has estimated that as a result of reduced commercial storage and transportation costs, the program will realize annual savings of $353,000 from this project. The budget proposes to spend $800,000 from the Surplus Property Revolving Fund to convert space in the southern

DEPARTMENT OF EDUCATION—Continued

California (Pomona) surplus property warehouse to cool storage. If funds for this project are approved, OSP anticipates *additional* annual savings of $192,000 when the project is completed. These savings—$545,000—are not reflected in the budget request for OSP.

The Office of Surplus Property has indicated that service charges in 1984–85 will be based upon *current* costs for administering the surplus commodities program. Thus, the charges will not reflect savings from converting either of the two warehouses. We believe that program savings from the warehouse conversions should be calculated, and service and handling charges reduced accordingly in order that savings may be passed on to agencies receiving food commodities. We therefore recommend that the Legislature adopt the following supplemental report language:

"The Department of Education shall report, by November 1, 1984, on the cost savings resulting from the conversion of warehouse space in Sacramento and Pomona to refrigerated storage, and the amount of such savings reflected in reduced service and handling charges."

3. Request For Transfer of Hardware Program is Premature

We recommend that $2,491,000 and 55.7 positions for the surplus personal property (hardware) program be included in the budget for the Department of Education, because legislation authorizing the program's transfer to the Department of General Services has not been enacted. We further recommend that the Legislature adopt Budget Bill language transfering funding authority for the surplus personal property program on the effective date of any legislation authorizing a change in program authority. (Augment Item 6100-001-680 (Surplus Property Revolving Fund) by $2,-491,000 and reduce Item 1760-001-688 by a corresponding amount.)

The budget proposes to shift the *hardware* portion of the surplus property program from OSP to the Office of Procurement in the Department of General Services (DGS). Accordingly, the budget reflects an increase of $2,491,000 and 55.7 positions in the Department of General Services' budget and an equivalent reduction in the OSP budget.

The proposed transfer cannot be accomplished without a statutory change in program authority. Senate Bill 1362, as introduced in January 1984, would authorize the transfer of the program to the Department of General Services, effective January 1, 1985.

Until the Legislature authorizes a statutory change in the administration of the surplus personal property program, budgeting funds and adding new positions for the Department of General Services is inappropriate. Moreover, since SB 1362, in its present form, would not take effect until January 1, 1985, the Department of Education would maintain responsibility for administering the program for the first half of the 1984–85 fiscal year even if the bill is chaptered.

In our analysis of the Department of General Service's item (Item 1760), we recommend the deletion of $2,491,000 and 55.7 positions from the DGS budget because the funding request for the hardware program is premature. We recommend that conforming action be taken with respect to the budget for the Department of Education.

We further recommend that the Legislature adopt the following Budget Bill language to provide for the transfer of funds if SB 1362 is chaptered:

"In the event that legislation authorizing the transfer of authority for the surplus personal property (hardware) program to the Department of General Services is enacted, funding authority for the program is hereby transferred from the Department of Education to the Department of General Services, on the effective date of such legislation."

4. Federal Emergency Food Distribution Program

Title I of Public Law 98-8 (the Emergency Jobs Act) provided for the distribution of agricultural commodities for use in congregate emergency feeding programs (such as "soup kitchens") in areas of high unemployment. California received commodities valued at approximately $8.6 million for distribution under this program, which operated from May 1 to December 31, 1983. Title II of PL 98-8 provided additional food commodities for distribution by the Office of Surplus Property to food banks, charitable institutions, and other nonprofit agencies such as the United Way. These local agencies distribute packages of food to needy low-income or unemployed persons. From May 1 to December 31, 1983, California received approximately $28.9 million in Title II commodities.

In addition, $4,943,349 in federal funds was allocated to California to reimburse state and local agencies for the costs they incurred from May 1 to September 30, 1983 related to storage and distribution of commodities in the emergency food program (Title I and Title II). The Office of Surplus Property is authorized to reimburse local agencies for their actual storage and distribution costs up to a maximum of 5 percent of the value of commodities distributed. The U.S. Department of Agriculture (USDA) granted OSP administrative authority to use these federal funds through December 31, 1983.

a. No Federal Funding for Redonated Commodities' Distribution Costs

USDA also granted OSP administrative authority to redonate any commodities remaining from the Title I program to charitable institutions and senior nutrition programs, as well as to Title I congregate feeding programs, after December 31, 1983. The federal funds provided by PL 98-8 for state and local agency administrative costs, however, may not be used after December 31, 1983 and must instead be returned to USDA.

OSP plans to complete the distribution of California's $8.6 million in Title I commodities as indicated in Table 52. Title I agencies (congregate feeding programs) have received commodities valued at an estimated $2.0 million during 1983, while charitable institutions not directly funded through the state Budget Act and senior nutrition programs were to receive commodities valued at approximately $3.8 million and $2.8 million, respectively, in January 1984.

The Office of Surplus Property has requested authorization from USDA to use unspent federal funds provided by PL 98-8 to cover state and local costs incurred in distributing commodities to charitable institutions and senior nutrition centers after December 31, 1983. Under current USDA policy, these commodities are redefined as "bonus commodities" on January 1, 1984, and OSP is permitted to charge local agencies fees to reimburse state handling and distribution charges. At this time, however, OSP has suspended all handling charges in order to reduce excess reserves in the Surplus Property Revolving Fund.

DEPARTMENT OF EDUCATION—Continued

Table 52
Office of Surplus Property
Allocation of Commodities and Federal Funds
Provided by Public Law 98-8 [a]

	Total Value of Food Allocated	*Potential Local Agency Claims* [b]	*Federally-Reimbursable California State (OSP) Expenditures*
Title I			
Title I agencies (May–December 1983) ..	$2,025,446	$101,272	(included in total)
Charitable institutions	3,804,864	—[c]	—
Elderly feeding programs	2,760,678	—[c]	—
Subtotals	$8,590,988	$101,272	
Title II	*$28,923,572*	*$1,446,179*	*(included in total)*
Totals	37,514,560	$1,547,451	$609,190

[a] Based on estimates provided by Department of Education.
[b] Local agencies participating in the Title I or Title II program may claim reimbursements for actual expenditures up to 5 percent of the value of commodities distributed.
[c] Federal funds may not be used to reimburse the costs of distributing redonated commodities after December 31, 1983.

Funding For Program Not Included in Budget

We recommend that prior to budget hearings, the Department of Finance (1) submit to the Legislature an expenditure proposal for the emergency food distribution program in 1984–85 and (2) report on the appropriateness of maintaining this program within the Office of Surplus Property.

In PL 98-92, Congress extended the Title II (food bank) emergency food program for an additional two years, until September 30, 1985. The Office of Surplus Property estimates that California will receive $120 million in emergency food commodities and $4.9 million to cover state and local distribution and storage costs during federal fiscal year 1984, with a similar appropriation likely in federal fiscal year 1985. (The precise amount of California's allocation will be determined by the number of poverty-level households and unemployed persons in the state, and by the total federal appropriation for the program in the next federal fiscal year.)

The budget, however, does not include funds or expenditures relating to the emergency food program in 1984–85. The Department of Finance has indicated that it has not determined whether the program should be operated by the Office of Surplus Property or by another state agency or private entity in 1984–85. The Department of Finance has further indicated that it intends to use the provisions of Control Section 28 of the 1983 Budget Act to authorize expenditures for the emergency food program in the budget year.

The Section 28 process allows the Director of Finance to approve additional expenditures for new or existing programs. It was enacted to provide flexibility to the executive branch to expend funds when it is not practical to obtain explicit legislative approval (such as when the Legislature is not in session), *provided* the fiscal committees and the Joint Legislative Budget Committee are given at least 30 days' advance notification of the actions to be taken using this flexibility.

The use of federal funds in 1984–85 would not seem to fall into the category of actions where explicit legislative action to approve the contemplated expenditures is not practical. Moreover, Section 28 is not intended to permit the Department of Finance to make policy decisions regarding the transfer of responsibility for an ongoing federally-funded program from one state agency to another. We believe that such a policy decision warrants legislative review through the budget process.

Because federal funds for this program will be received and expended during the budget year, there is no reason why the Budget Bill should not include an appropriation for the program. If, at the time of budget hearings, the precise amount of federal funds to be appropriated in 1984–85 is uncertain, an estimate can be included in the bill and the Section 28 process can be used to make subsequent changes in the budget amount for this program.

Accordingly, we recommend that prior to budget hearings the Department of Finance (1) submit to the Legislature an expenditure proposal for the emergency food distribution program in 1984–85 and (2) report on the appropriateness of having the Office of Surplus Property continue to administer this program.

V. STATE DEPARTMENT OF EDUCATION

This section discusses the overall administrative budget for the State Department of Education (SDE), as well as those administrative activities which are not tied to a particular local assistance program, such as program evaluation and curriculum services. Administrative issues related to particular local assistance programs, such as the School Improvement Program, are discussed in connection with the program itself. In addition, issues related to the State Library, the state special schools, and the Office of Surplus Property within SDE are discussed elsewhere in this *Analysis* and are not treated here.

A. OVERVIEW OF THE DEPARTMENT'S BUDGET FOR 1984–85 (Item 6100-001-001)

Table 53 shows state operations expenditures for the State Department of Education (excluding the State Library, state special schools, and Office of Surplus Property) in the prior, current, and budget years. These expenditures are proposed at $66.0 million in 1984–85, of which $26.9 million is requested from the General Fund.

Table 53

State Operations Funding [a]
1982–83 through 1984–85
(in thousands)

	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Change Amount*	*Change Percent*
A. Department of Education Funding:					
General Fund	$28,216	$25,459	$26,898	$1,439	5.7%
Federal Funds	26,534	32,371	32,829	458	1.4
State School Building Lease-Purchase	425	504	596	92	18.3
Driver Training Penalty Assessment	243	254	317	63	24.8
Environmental License Plate	—	103	106	3	2.9
Private Postsecondary Administration	299	712	719	7	1.0
Student Tuition Recovery	31	50	50	—	—
Special Deposit	—	1,822	1,847	25	1.4
Special Account for Capital Outlay	—	51	—	−51	−100.0
Subtotals	$55,748	$61,326	$63,362	$2,036	3.3%
B. Local Assistance Administration [b]	$1,180	—	—	—	—
C. Reimbursements	$2,736	$2,892	$2,647	−$245	−8.5%
Totals	$59,664	$64,218	$66,009	$1,791	2.8%

[a] Excludes state special schools, Office of Surplus Property and State Library.

[b] The decrease between 1982–83 and 1983–84 reflects a change in budgeting. Local assistance administration will be appropriated in state operations and not transferred from local assistance, as has been the practice in prior years.

DEPARTMENT OF EDUCATION—Continued

The budget proposes an increase of $1,439,000, or 5.7 percent, in General Fund support for the department. This increase will grow by the cost of any staff benefit increases provided in the Budget Act.

Table 53 shows that total Department of Education expenditures are expected to increase by $1.8 million, or 2.8 percent, while General Fund expenditures by the department are proposed to increase by $1.4 million, or 5.7 percent. The most significant reason for the difference between the change in total expenditures and the change in General Fund expenditures is that federal funds—which account for roughly half of the department's total expenditures—are anticipated to increase by only 1.4 percent in the budget year.

1. Significant General Fund Changes in 1984–85.

Table 54 shows the components of the proposed $1,439,000 (5.7 percent) increase in General Fund support for the State Department of Education, between the current and budget years.

Table 54

Proposed 1984–85 General Fund Budget Changes State Operations [a] (in thousands)

1983–84 Expenditures (Revised)		$25,459
A. Changes to maintain existing budget		
1. Employee compensation	$810	
2. Price increase	277	
3. Workload changes	190	
Total, changes to maintain existing budget		$897
B. Program change proposals		
1. Youth Suicide Prevention	$15	
2. California Assessment Program Testing	450	
3. Local Assistance Bureau	171	
4. Mentor Teacher Program	88	
5. Pilot Projects for Administration and Management	44	
6. Educational Technology	−176	
7. Vocational Education Student Organizations to Local Assistance	−500	
Total, program change proposals		$92
C. Financial Legislation		
1. California Assessment Program	$200	
2. California Writing Project	250	
Total, financial legislation		$450
1984–85 Expenditures (Proposed)		$26,898
Change from 1983–84:		
Amount	$1,439	
Percent	5.7%	

[a] Excludes state special schools, Office of Surplus Property, and State Library.

The most significant changes shown in Table 54 are (1) baseline increases to maintain the existing budget, including $810,000 for annualization of the 6 percent increase in employee compensation granted in the current year ($894,000), (2) increases to expand statewide testing under the California Assessment Program ($650,000), and (3) a decrease reflecting the transfer of funding for vocational education student organizations from state operations to local assistance (–$500,000).

2. Personnel

Table 55 shows the number of funded positions (personnel-years), by fund source, in the Department of Education. The budget proposes an increase of 16.8 (1.4 percent) in the number of funded positions, of which 12.8 would be supported by the General Fund. This amounts to a 3.4 percent increase in General Fund-supported positions. The increase in positions primarily reflects the addition of 11.0 positions to administer new programs created by SB 813. (Of these positions, six are associated with programs discussed elsewhere in this *Analysis*: the Mentor Teacher Program, the Pilot Project for Administrative Personnel, and the Educational Technology program.)

Table 55

Department of Education
Personnel Years by Fund Source [a]
1982–83 through 1984–85

	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Change Amount*	*Change Percent*
Department of Education					
General Fund	514.3	372.9	385.7	12.8	3.4%
Federal funds	348.4	438.7	439.3	0.6	0.1
Other funds	343.9	390.6	394.0	3.4	0.9
Totals	1,206.6	1,202.2	1,219.0	16.8	1.4%

[a] Excludes state special schools, Office of Surplus Property, and State Library

Impact of Governor's 3 Percent Personnel Reduction

In November 1983, the Department of Finance issued a Budget Letter requiring all departments to accomplish a 3 percent reduction to the total number of positions authorized in the 1983–84 base budget. While the Department of Education was not exempted from the provisions of the Budget Letter, it was allowed to credit toward its 3 percent goal (86 positions) a total of 179 General Fund-supported positions which were eliminated as a result of a $5.3 million unallocated reduction made by the 1983 Budget Act (discussed below). Consequently, the Budget Letter resulted in no further position reductions from SDE's 1983–84 base budget.

3. Operating Expenses and Equipment

Table 56 presents the line item display for operating expenses and equipment (OEE) for the SDE in the prior, current, and budget years.

As shown in Table 56, OEE expenses are proposed to decrease by $438,000, or 2.0 percent, in the budget year. The primary factors causing the decrease are: (1) a reduction in central administrative services (–$1.2 million), (2) a reduction in expenditures for consultant and professional services (–$0.3 million), and (3) reductions in general expenses (–$0.2 million). Partially offsetting these decreases are: (1) increased communications costs ($0.3 million), (2) increased costs for facilities operations ($0.1 million), and (3) increases in expenditures for in-state travel ($0.1 million).

DEPARTMENT OF EDUCATION—Continued

Table 56
Operating Expenses and Equipment [a]
1982–83 through 1984–85
(in thousands)

	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Change*	
				Amount	*Percent*
General Expenses	$1,242	$2,656	$2,444	−$212	−8.0%
Printing	470	515	566	51	9.9
Communications	1,045	1,031	1,324	293	28.4
Postage	418	190	188	−2	−1.1
Travel-in-state	2,109	2,639	2,739	100	3.8
Travel-out-of-state	57	43	44	1	2.3
Facilities Operations	2,251	2,421	2,528	107	4.4
DPA-Collective Bargaining	—	19	21	2	10.5
Consultant and Professional Services	7,321	10,254	9,950	−304	−3.0
Departmental Services	−3,020	−2,551	−1,986	565	22.1
Consolidated Data Centers	2,273	1,896	2,086	190	10.0
Central Administrative Services	2,567	2,447	1,257	−1,190	−48.6
Equipment	892	132	93	−39	−29.5
TOTALS	$17,625	$21,692	$21,254	−$438	−2.0%

[a] Excludes state special schools, Office of Surplus Property, and State Library.

B. EFFECTS OF REORGANIZATION AND REDUCTIONS

In 1983–84, the State Department of Education (SDE) has undergone two major changes. First, the department has been reorganized to reflect the educational priorities of the new Superintendent of Public Instruction. Second, the department has had to accommodate a total of $5.3 million in unallocated, General Fund reductions which were imposed by the Legislature and the Governor in the 1983 Budget Act. Because these reductions were accommodated in the context of the general departmental reorganization, it is not possible to separate entirely the effects of the two changes. Consequently, we discuss these changes together.

As passed by the Legislature, the 1983 Budget Bill included an unallocated, General Fund reduction of $3,499,000 to the SDE budget. Prior to signing the bill into law, the Governor vetoed an additional $1,325,000 for consultant and professional services and $500,000 in unspecified expenses. The Department of Finance subsequently authorized SDE to accommodate both of these reductions as a single, unallocated reduction of $1,825,000. Thus, the total unallocated reduction to the department's General Fund budget imposed by the 1983 Budget Act was $5,324,000.

In accommodating this reduction, and as part of the new superintendent's reorganization, SDE eliminated a total of 178.8 General Fund-supported positions from the number authorized in the department's 1983–84 base budget. Over half of the positions eliminated were associated with functions relating to instruction and instructional support, such as the administration of the Special Education program and various categorical education programs. Of the remainder, 48 positions were eliminated from the Office of Child Development, while 28 positions were eliminated from departmental administration.

The reduction in authorized positions was accomplished by eliminating vacant positions which existed because of the Governor's freeze on hiring and higher-than-anticipated retirements under the "Golden Handshake" (early retirement incentive) program. Consequently, the elimination of these 178.8 positions resulted in no layoffs.

At the same time that the functions of the department were consolidated through the elimination of positions, the department was reorganized into four branches, each of which is administered by a deputy superintendent:

- Administration—This branch includes functions relating to personnel, fiscal services, and educational data management systems.
- Public and Governmental Affairs—This branch includes the Office of Governmental Affairs, the Office of External Affairs, the Public Information Office, and a Congressional liaison.
- Field Services—This branch includes field management services; compliance and grants management; child nutrition and surplus property; the Office of Child Development; and the Office of Private Postsecondary Education.
- Curriculum and Instructional Leadership—This branch, the largest of the four, encompasses five divisions: curriculum and instruction; categorical support programs; vocational and continuing education; special needs; and planning, evaluation, and research.

The new organizational structure reflects the intended objectives of the Superintendent of Public Instruction to place a greater emphasis on providing leadership and assistance to school districts in improving the quality of education, and less emphasis on extensively monitoring districts to ensure that they are in strict compliance with all statutory and administrative regulations. It is too early to determine the extent to which the department will succeed in implementing the superintendent's goals. We will monitor the results of the department's efforts, however, and report to the Legislature as appropriate.

Failure to Comply with Budget Act Language

We recommend that the State Department of Education explain to the legislative fiscal committees: (1) why it has failed to comply fully with the restrictions imposed by language in Item 6100-001-001 of the 1983 Budget Act and (2) what steps it intends to take to assure compliance with these provisions in the future.

Language adopted by the Legislature in Item 6100-001-001 of the 1983 Budget Act (1) restricts the number of educational consultant and administrative positions in the State Department of Education (SDE); (2) restricts the use of contracts for personal services during 1983–84; and (3) requires SDE to abolish vacant administrative positions. Specifically, the Budget Act language provides that:

- The number of positions at the Education Consultant salary level or higher shall be no greater than the number of such positions authorized on July 1, 1983.
- The number of positions at the Education Administrator I level or higher shall not exceed 10 percent of the number of positions at the Education Consultant salary level or higher.
- No individual employee of the department shall be paid on the basis of a personal services contract during the 1983–84 fiscal year for more than 30 cumulative days.

DEPARTMENT OF EDUCATION—Continued

- Any position at the Education Administrator I salary level or higher which remains vacant for more than 60 cumulative days shall be abolished.

The language further requires the Superintendent of Public Instruction to submit a report to the Joint Legislative Budget Committee by no later than November 15, 1983 regarding actions taken by the department to comply with these provisions. This report was submitted to the Legislature on November 29, 1983.

Based on our review of the department's report, we conclude that the department has not fully complied with the terms of the Budget Act language adopted by the Legislature. Specifically, our review indicates the following areas of noncompliance:

- ***Restriction on Educational Administrator Positions.*** As noted, the Budget Act language limits the number of Educational Administrator positions to no more than 10 percent of the number of positions at or above the Education Consultant salary level. In December 1983, the department had 421 such positions, resulting in a statutory maximum of 42 Educational Administrator positions. As of this same date, however, the department had 77 Educational Administrator positions—*35 more than the number authorized by law.*
- ***Abolishing Vacant Administrator Positions.*** The department reports that, of 19 administrator positions which were required to be abolished under the terms of the Budget Act language, 15 have been abolished and 1 has been reclassified to a lower level. Three positions, however, have not been abolished: (1) Assistant Superintendent of Public Instruction and Director of Vocational Education, (2) Assistant Superintendent of Public Instruction for Child Development, and (3) Homemaking Education Administrator I.

Given these findings, we recommend that the State Department of Education explain to the legislative fiscal committees: (1) why it has failed to comply with the restrictions imposed by the Budget Act language and (2) what steps it intends to take to assure compliance with these provisions in the future.

C. DIVISION OF PLANNING, EVALUATION AND RESEARCH

The Division of Planning, Evaluation and Research is the department's centralized evaluation unit. Its main functions are the administration of (1) the California Assessment Program, (2) the California High School Proficiency Examination, and (3) various program evaluations. The division also is responsible for implementing the new Educational Improvement Incentive Program (discussed elsewhere in this *Analysis*) and the Golden State Examination program, both created by SB 813. The division has 54.8 authorized positions in the current year.

Table 57 shows expenditures and funding for the Division of Planning, Evaluation and Research in the prior, current, and budget years.

Table 57

Expenditures and Funding for the Division of Planning, Evaluation and Research 1982–83 through 1984–85 (in thousands)

	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Change Amount*	*Change Percent*
1. State Operations					
Special Studies and Evaluation Reports	$1,686	$1,461	$1,495	$34	2.3%
California Assessment Program (CAP)	1,531	2,227	2,902	675	30.3
California High School Proficiency Examination (CHSPE)	802	580	586	6	1.0
Educational Planning & Information Center	528	445	465	20	4.5
Reference Services	—	187	195	8	4.3
Subtotals	$4,547	$4,900	$5,643	$743	15.2%
2. Local Assistance	$72	$468 [a]	$243	–$225	–48.1%
TOTALS	$4,619	$5,368	$5,886	$518	9.6%
General Fund	*$1,971*	*$1,709*	*$2,182*	*$473*	*27.7%*
Federal Funds	*2,226*	*3,079*	*3,118*	*39*	*1.3*
Special Deposit Fund	—	*580*	*586*	*6*	*1.0*
Reimbursements	*422*	—	—	—	—

[a] Includes $200,000 for CAP test expansion.

1. California Assessment Program

The California Assessment Program (CAP) is designed to provide the public, the Legislature, and local school districts with information regarding the level of K–12 student performance in the state. Under this program, standardized achievement tests are administered to all public school students at specified grade levels, with results reported on a schoolwide and districtwide basis. Prior to the enactment of SB 813, (1) CAP tests were administered to students in grades 3, 6, and 12 and (2) the range of subject matter tested was limited by statute to "basic skills" course, such as reading, writing, and basic mathematics.

Senate Bill 813 authorizes the expansion of the California Assessment Program to include the testing of students in grades 8 and 10. The act further authorizes the State Board of Education to expand the range of subject matter tested to include higher-level "content courses," such as literature, history, advanced mathematics, and science. The act provided an appropriation of $200,000 annually in 1983–84 and 1984–85 for expansion of the CAP test to grades 8 and 10. The 8th grade test has been developed and will be administered for the first time in the spring of 1984.

The Governor's Budget provides $475,000 *in addition to* the $200,000 statutory appropriation in 1984–85, for a total of $675,000 for expansion of CAP in the budget year. Of this total, $550,000 is associated with the estimated costs of developing and implementing a 10th grade test which includes an assessment of higher-level skills in science and social studies. The remaining $125,000 is associated with (1) expanding the range of subject matter tested in the 8th grade to include these higher-level skill areas and (2) administering the 8th grade test in 1984–85.

The contract for the development of the 10th grade test will be awarded during the 1984–85 fiscal year, through a competitive bid process. As a result, the exact cost of developing and implementing this test will not be known until after the conclusion of deliberations on the 1984 Budget Bill. As part of the bid specifications, the State Department of Education is

DEPARTMENT OF EDUCATION—Continued

considering a requirement that the format of the 10th grade test allow the reporting of test scores on an individual student basis.

Individual Score Reporting Not Justified

We recommend that the Legislature adopt Budget Bill language (1) providing that the funds appropriated for the development of the 10th grade CAP test shall be expended only upon the approval of the Director of Finance and (2) prohibiting the expenditure of funds for the development of individual student score reporting on this test, because a specific plan justifying the need for such reporting has not been presented.

The CAP tests currently are administered using a "matrix sample" technique. Under this method, each student tested takes only part of a much longer total test. In grade 3, for example, each student receives only 34 questions out of a total of 1,020. For this test, 30 different test forms are used, with one-thirtieth of the students tested receiving each form on a random basis. The results from the 30 subtests are statistically aggregated to provide a performance profile for each school.

In comparison with administering a complete test to each student, the advantages of the matrix sampling approach are that it (1) reduces the amount of time required for test administration and (2) permits a broader range of skills to be tested within an allotted time period. The principal disadvantage of the method is that the test results may not be used as an evaluative or diagnostic tool on an individual student basis.

School districts desiring information on individual student performance can—and do—contract with private test publishers for this purpose. For example, roughly 80 percent to 85 percent of California public school pupils are tested using one of two privately-published tests—the Comprehensive Test of Basic Skills (CTBS) and the California Achievement Test. In addition to their use in assessing student achievement, the results of these tests may be used in complying with evaluation requirements associated with districts' receipt of federal funds (primarily ECIA Chapter 1). The costs of these tests are funded from the districts' general revenues.

As noted, the State Department of Education is considering including as part of the bid specifications a requirement that the format of the 10th grade test allow the reporting of test scores on an individual student basis. At the time this *Analysis* was written, however, the department had not resolved several important issues regarding the manner in which individual student score reporting would be implemented. Specifically, the department had not determined:

- the nature and extent of the modifications that would be required for individual score reporting.
- whether the individually-scored tests would be mandatory or offered as an option in addition to the matrix-based CAP tests, and
- whether, if this service were offered on an optional basis, school districts would be charged for the costs of individual score reporting.

Our analysis indicates that, until these issues are resolved, providing funding for individual student score reporting would be premature. Accordingly, we recommend that the Legislature adopt Budget Bill language to prohibit the expenditure of funds for the development of a 10th grade test which includes individual score reporting. Because the exact amount of funds needed for the development and implementation of the 10th grade test will not be known prior to the conclusion of budget hearings, we further recommend that the Legislature adopt language providing that the $550,000 provided for this purpose shall be available for expenditure only upon approval of the Director of Finance, with the unexpended balance reverting to the General Fund. Our recommendation may be implemented by adopting the following Budget Bill language in Item 6100-001-001:

"20—Instructional Support:

1. $550,000 of the funds appropriated in this item shall be used only for the development and implementation of the 10th grade CAP test and shall be expended only upon the approval of the Director of Finance. None of these funds shall be used by the Department of Education for the development of a test format which permits the reporting of scores on an individual student basis."

2. Golden State Examination Program

The budget proposes no funding for the new Golden State Examination program established by SB 813. As described earlier in our overview, this program is intended to recognize the achievement of high school students in specified academic areas.

Specifically, SB 813 requires the Superintendent of Public Instruction, in consultation with representatives of public schools and institutions of higher education, to develop academic subject matter examinations in each of the following areas by March 15, 1985:

- English literature and composition,
- Mathematics,
- Laboratory sciences,
- Foreign languages,
- United States history,
- Health sciences, and
- Other areas designated by the Superintendent of Public Instruction.

Students in participating school districts would be eligible to take any of the examinations offered. A student attaining a qualifying score would receive an honors designation in the tested subject, which would be affixed to his or her high school diploma.

Senate Bill 813 appropriated approximately $128,000 to the State Department of Education (SDE) for the initial costs of developing examinations in 1983–84. (This level of funding was based on the estimated costs of developing two subject matter exams.) At the time this *Analysis* was written, SDE was exploring the possibility of contracting with a private testing organization for development of the Golden State exams and none of the funds appropriated for 1983–84 had been expended.

D. CURRICULUM SERVICES

To assist school districts and other agencies in improving instruction, the Office of Special Curriculum Services administers the following programs: (1) physical education, (2) health education, (3) environmental education, (4) demonstration programs, (5) traffic safety, and (6) sex equity programs.

Environmental Education (Items 6100-001-140 and 6100-181-140)

We recommend approval.

The Environmental Education program provides approximately 30 grants annually to local education agencies, other governmental agencies, and nonprofit organizations to establish interdisciplinary education pro-

DEPARTMENT OF EDUCATION—Continued

grams related to the environment, energy, and conservation. The budget proposes to fund both local assistance ($394,000 in Item 6100-181-140) and state operations ($106,000 in Item 6100-001-140) for this program from the Environmental License Plate Fund. The total of $500,000 represents no change from the amount appropriated in the current year. Our analysis indicates that the proposal is reasonable and therefore we recommend that it be approved.

E. UNIVERSITY AND COLLEGE OPPORTUNITIES PROGRAM (Item 6100-001-001)

The goal of the University and College Opportunities (UCO) program is to assist high schools in increasing the number of students from underrepresented groups that are eligible for university admission. The program is administered by three positions within the State Department of Education.

The budget proposes $193,000 from the General Fund for administration of the UCO program in 1984–85, an increase of 2.1 percent over estimated expenditures in the current year. Services provided by the UCO program staff include (1) coordination of federally-funded innovative projects, (2) a UCO "network" to encourage program replication and information sharing, (3) liaison with the Mathematics, Engineering, Science Achievement (MESA) program, (4) workshops to bring together high school and university officials, (5) coordination with parent and community support groups, and (6) linking outstanding students with existing scholarship and fellowship programs.

In our review of the MESA program (Item 6100-192-001), we recommend that supplemental language be adopted requiring the Department of Education to report on the merits of consolidating the UCO program, the California Academic Partnership program, and the MESA program. (For the specific language, please refer to our analysis of the MESA program.)

F. LOCAL ASSISTANCE BUREAU (Item 6100-001-001)

We recommend approval.

The Local Assistance Bureau within the State Department of Education is responsible for making apportionments of state and federal aid to school districts, county offices of education, and entities specified in statute. In 1983–84, these apportionments totaled over $8.9 billion. The bureau is staffed with 70 positions in the current year, at a total cost of $3,269,000. Of this amount, $2,550,500 is from the General Fund, $703,400 is from federal funds, and $14,100 is from reimbursements.

The budget proposes $171,000 to add five positions to the Local Assistance Bureau in 1984–85, in order to accommodate workload increases resulting from the passage of major school finance and reform legislation in 1983. Specifically, to reflect a multitude of funding changes made by SB 813, AB 70, and the 1983 Budget Act, the bureau must (1) design and distribute new apportionment forms and schedules, (2) modify the data processing systems used to calculate apportionments, and (3) provide documentation for the data processing changes to indicate clearly their relationship to the new law.

Our review indicates that the budget proposal is reasonable and, accordingly, we recommend that it be approved.

G. PRIVATE POSTSECONDARY EDUCATION (Item 6100-001-305)

We recommend approval.

The Office of Private Postsecondary Education (OPPE) within the Department of Education, regulates private schools in the state, and is the administrative arm of the Council for Private Postsecondary Educational Institutions. OPPE receives its authority from the Private Postsecondary Education Act of 1977 (Ch 1202/77), which requires OPPE to review and approve most private postsecondary schools operating in the state. The OPPE also has a contract with the U.S. Veterans Administration, which requires OPPE to make annual visits to schools enrolling veterans.

The office also administers a Student Tuition Recovery Fund, which reimburses students enrolled in private postsecondary schools for a portion of their tuition payments when schools close before the students have completed their instructional program.

The OPPE is self-supporting, and derives its revenues from (1) federal reimbursements, (2) fees charged to private schools seeking state licensure, and (3) charges assessed to the Student Tuition Recovery Fund for its administration. The office has 32.4 positions authorized in the current year. Table 58 shows OPPE support for the prior, current, and budget years.

Table 58

Office of Private Postsecondary Education Expenditures (dollars in thousands)

	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Change Amount*	*Change Percent*
State Operations	$1,732	$1,772	$1,782	$10	0.6%
Local Assistance	171	420	420	—	—
Totals	$1,903	$2,192	$2,202	$10	0.5%
Federal Trust Fund	*$1,402*	*$1,010*	*$1,013*	*$3*	*0.3%*
Student Tuition Recovery Fund	*202*	*470*	*470*	—	—
Private Postsecondary Education Fund	*299*	*712*	*719*	*7*	*1.0*
Positions	32.5	32.4	32.4	—	—

The budget requests $1,782,000 for OPPE's state operations in the budget year, including $719,000 from the Private Postsecondary Education Fund (Item 6100-001-305). This amount represents a $10,000 (0.6 percent) increase from current-year estimated expenditures of $1,772,000. The budget also requests $470,000 from the Student Tuition Recovery Fund for local assistance expenditures—an amount equal to estimated current-year expenditures. Our analysis indicates that, based on OPPE's anticipated workload, the amounts requested are reasonable. Accordingly, we recommend approval of these amounts as budgeted.

VI. STATE LIBRARY

A. OVERVIEW OF THE 1984–85 PROPOSED BUDGET (Items 6100-011-001, 6100-011-890, 6100-211-001, 6100-211-890, and 6100-221-001)

The State Library (1) maintains reference and research materials for state government, (2) provides support to local public libraries, and (3) provides library services to the blind and physically handicapped in Northern California.

The state operations budget for the State Library supports the maintenance of the various library collections (law, reference, Sutro, govern-

DEPARTMENT OF EDUCATION—Continued

ment publications, etc.), the provision of consultant services to public libraries, and the administration of the California Library Services Act (CLSA). The local assistance component consists of state and federal grants to public libraries and library agencies, and support of local resource sharing through the creation and maintenance of a data base of California public library materials. Table 59 shows the funding level for the State Library in the prior, current, and budget years.

Table 59

State Library Expenditures and Funding
1983–84 through 1984–85
(in thousands)

	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Change Amount*	*Change Percent*
State Operations:					
Reference for the Legislature	$664	$772	$788	$16	2.1%
Statewide library support and development	2,684	2,990	2,654	−336	−11.2
Special clientele services	1,113	1,388	1,541	153	11.0
Support services	3,542	3,476	3,838	362	10.4
Subtotals	$8,003	$8,626	$8,821	$195	2.3%
Local Assistance:					
Statewide library support and development	$11,472	$24,095	$25,372	$1,277	5.3%
Totals	$19,475	$32,721	$34,193	$1,472	4.5%
State Operations:					
General Fund	*$6,329*	*$7,438*	*$7,215*	*−$223*	*−3.0%*
Special Account for Capital Outlay	*805*	—	—	—	—
Federal funds	*856*	*1,175*	*1,593*	*418*	*35.6*
Reimbursements	*13*	*13*	*13*	—	—
Local Assistance:					
General Fund	*$5,520*	*$11,685*	*$19,210*	*$7,525*	*64.4%*
Federal funds	*5,952*	*12,410*	*6,162*	*−6,248*	*−50.3*

Summary of Changes. Table 60 displays the changes in the State Library budget proposed for 1984–85.

The budget proposes a net increase of $195,000, or 2.3 percent, for state operations in 1984–85. This increase reflects several program changes, as well as increases needed to maintain the library's current level of activity. Specifically, the budget proposes (1) a reduction of $650,000 to eliminate one-time funding provided in the current year for relocating the Sutro Library to a new facility, (2) a reduction of $95,000, reflecting the elimination of federal funds provided in the current year for administration of Library Services and Construction Act—Title II funds (provided through the federal Jobs Act), (3) an increase of $94,000 for increased rent for the Braille and Talking Book Library, and (4) an increase of $504,000, resulting from a redirection of federal funds (which would otherwise have been used for local assistance) which will be used to purchase genealogy materials for the Sutro Library and to accelerate the State Library's microfilming program to preserve historic state documents.

The budget also proposes a net increase of $1,277,000, or 5.3 percent, for local assistance. The major program changes in this area are: (1) an increase of $1,315,000 to fully fund transaction-based reimbursements provided libraries to partially offset the costs of sharing resources between library jurisdictions, (2) an increase of $6 million for the Public Library Foundation Program, established by Ch 1498/82, which provides state support to public libraries, (3) the redirection of $504,000 in federal funds from local assistance to state operations noted above, and (4) a reduction of $5,494,000 to reflect the elimination of federal funds provided in the current year for the construction and renovation of library facilities under the federal Jobs Act (PL 98-8).

Table 60
State Library Budget Changes
(in thousands)

State Operations:	*General Fund*	*Federal Funds*	*Reimbursements*	*Totals*
1983–84 Expenditures (Revised)	$7,438	$1,175	$13	$8,626
1. Cost changes				
Inflation adjustments	235	—	—	235
Merit salary adjustment	3	2	—	5
Full-year cost of 1983–84 employee compensation increases	95	12	—	107
2. Program changes				
Braille and Talking Book Library	94	—	—	94
Microfilming	—	205	—	205
Genealogy materials for Sutro Library	—	299	—	299
One-time costs for Sutro moving	−650	—	—	−650
One-time cost to administer Jobs Act	—	−95	—	−95
Revised federal estimate	—	−5	—	−5
1984–85 Expenditures for State Operations (Proposed)	$7,215	$1,593	$13	$8,821
Change from 1983–84:				
Amount	−$223	$418	—	$195
Percent	−3.0%	35.6%	—	2.3%
Local Assistance:				
1983–84 Expenditures (Revised)	$11,685	$12,410	—	$24,095
1. Cost changes				
Cost-of-living adjustment	210	—	—	210
2. Program changes				
CLSA—Transaction-Based Reimbursements	1,315	—	—	1,315
Public Library Foundation Program	6,000	—	—	6,000
Transfer funds for microfilming to state support	—	−205	—	−205
Transfer funds for genealogy materials to state support	—	−299	—	−299
One-time cost for Jobs Act	—	−5,494	—	−5,494
Revised federal estimate	—	−250	—	−250
1984–85 Expenditures for Local Assistance (Proposed)	$19,210	$6,162	—	$25,372
Change from 1983–84:				
Amount	$7,525	−$6,248	—	$1,277
Percent	64.4%	−50.3%	—	5.3%

DEPARTMENT OF EDUCATION—Continued

B. STATE LIBRARY SUPPORT (Items 6100-011-001 and 6100-011-890)

We recommend approval.

The budget proposes an increase of $195,000, or 2.3 percent, in total support for the library's state operations in 1984–85. As shown in Table 60, this amount reflects an increase of $418,000 from federal funds and a decrease of $223,000 in General Fund support. Our review indicates that this request is reasonable, and we recommend that it be approved.

C. SUPPORT TO LOCAL LIBRARIES

The budget proposes to provide a total of $25.2 million in support to local libraries in the 1984–85 fiscal year through the California Library Services Act, the federal Library Services and Construction Act, and the Public Library Foundation Program. A discussion of each of these programs is provided below.

1. California Library Services Act (Item 6100-211-001)

General Fund support to public libraries and regional library cooperative systems is provided under the California Library Services Act (CLSA) for the purposes of:

- encouraging the sharing of resources between libraries,
- encouraging libraries to serve the underserved, and
- reimbursing libraries for providing services outside their jurisdictions or beyond their normal clienteles.

The act is administered by the State Librarian, who serves as chief executive officer of the Library Services Board. The board was established under the CLSA to adopt rules, regulations, and general policies for the implementation of the act. Programs for libraries and library systems are funded by formula, by transaction-based reimbursements, or through service plan agreements.

Table 61 indicates CLSA local assistance funding by component.

Table 61

California Library Services Act Local Assistance General Fund Expenditures by Component 1982–83 through 1984–85 (in thousands)

	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Change*	
				Amount	*Percent*
System reference	$1,369	$1,446	$1,446	—	—
Transactions—direct loan	1,730	1,780	2,764	$984	55.3%
Transactions—interlibrary loan	946	894	1,225	331	37.0
Consolidations and affiliations	29	51	51	—	—
Statewide data base	482	502	502	—	—
System communication and delivery	933	976	976	—	—
System advisory boards	31	36	36	—	—
Totals	$5,520	$5,685	$7,000 [a]	$1,315	23.1%

[a] Total does not include a 3 percent COLA which will be allocated by the Library Services Board.

Change Needed in Reimbursement Policy for Interlibrary Loans (ILL)

We recommend that (1) the Legislature adopt Budget Bill language directing the State Librarian to require that libraries participating in the CLSA charge patrons a $1 processing fee for each interlibrary loan requested under the CLSA, so that library patrons will have reason to be more selective in requesting this service, thereby reducing the amount needed for CLSA reimbursements and (2) the proposed $1.3 million General Fund augmentation for transaction-based reimbursements be deleted. (Reduce Item 6100-211-001 by $1,315,000.)

In an effort to encourage the sharing of resources between library jurisdictions, the CLSA provides reimbursement to libraries for interlibrary loan (ILL) and direct loan (DL) transactions. These transaction-based reimbursements (TBR) are intended to partially offset costs which libraries incur in lending materials to individuals residing beyond their jurisdictions. There are no limitations on the number of reimbursable transactions which may be claimed each year. As a result, in 1981–82 through 1983–84, the amount of reimbursements claimed for both types of transaction-based costs exceeded the amount of funds budgeted for this purpose. Table 62 illustrates this shortfall.

Table 62
CLSA Transaction-Based Reimbursments (TBR) Funding
1981–82 through 1984–85

	Actual 1981–82	*Actual 1982–83*	*Estimated 1983–84*	*Proposed 1984–85*
Total claims	$3,011,000	$3,311,000	$3,627,000	$3,989,000
Budget Act appropriation	2,596,000	2,596,000	2,674,000	3,989,000
Shortfall	$415,000	$715,000	$953,000	—
Funding Sources for Shortfall:				
CLSA (state support)	$415,000	$80,000		
LSCA (federal support)		635,000	$900,000	
Remaining deficit	—	—	$53,000	—
Totals, TBR Funding Level	$3,011,000	$3,311,000	$3,574,000	$3,989,000

49 Percent Increase in General Fund Support Proposed. In 1981–82, the TBR shortfall of $415,000 was funded through a redirection of existing CLSA funds. In 1982–83, the shortfall of $715,000 was funded again through a redirection of CLSA funds and with additional federal Library Services and Construction Act (LSCA) funds. An estimated shortfall of $953,000 in the current year will also be funded in part with LSCA funds, leaving an unfunded deficit of $53,000. The State Library estimates that, in the absence of additional funding for this purpose, the TBR shortfall in 1984–85 will be $1,315,000.

The budget proposes to avoid the anticipated shortfall in 1984–85 by providing a $1,315,000 General Fund augmentation for CLSA, resulting in a total support budget of $3,989,000—or a 12 percent increase over the 1983–84 funded level for transaction-based reimbursements (this amount does not include any cost-of-living adjustment). We note, however, that while the total proposed TBR funded level would increase by 12 percent, General Fund support is proposed to increase by 49 percent—from $2.7 million in 1983–84 to $4.0 million in 1984–85. For reasons given below, we believe that this increase is unwarranted.

In order to mitigate this shortfall problem, we recommended in last year's *Analysis* that the Legislature adopt Budget Bill language requiring

DEPARTMENT OF EDUCATION—Continued

libraries participating in the CLSA to charge patrons a $1 processing fee for each interlibrary loan requested under the CLSA. Our analysis indicated that the imposition of a nominal fee would have two beneficial results:

- Libraries initiating the ILL request would recover a portion of their costs associated with ILL requests.
- Patrons would be more selective in requesting this service, resulting in cost savings to both local agencies, and the state.

The Legislature did not adopt this recommendation, but instead adopted language in the Supplemental Report to the 1983 Budget Act directing the State Librarian to report to the fiscal committees regarding alternatives for remedying, within the limits of the existing appropriation, the transaction-based reimbursements shortfall problem.

In response to this language, the State Librarian submitted a report which considered, and rejected, all of the following alternatives:

- Discontinue the service,
- Limit reimbursable transactions to the level of the existing appropriation,
- Reimburse interlibrary loans on a "net imbalance" (loans made to other libraries' patrons minus loans to own patrons made by other libraries) basis,
- Reduce reimbursement rates to match the existing appropriation,
- Redirect funds from other CLSA programs, and
- Cover shortfall with federal funds.

The report did not consider the alternative of charging a nominal user fee as a means of mitigating the TBR shortfall problem.

We continue to believe that charging a user fee to patrons who wish to utilize interlibrary loan services would be justified. In fact, our field visits disclose that some libraries, at their own initiative, *already* charge a user fee to patrons initiating requests for ILL. In addition, we note that under the state's Medi-Cal program, clients are required to pay a small copayment in order to control costs and discourage overutilization of the medical services provided. Similarly, we believe that charging library patrons a nominal fee for interlibrary loans would discourage frivolous requests, thereby reducing the cost of providing this service. Accordingly, we recommend that the Legislature adopt the following Budget Bill language, directing the State Librarian to require that all CLSA libraries charge a minimum fee for interlibrary loans.

> "In order to receive California Library Services Act reimbursement for interlibrary loan transactions, participating libraries must certify to the State Librarian that they are charging a minimum fee of $1 to library patrons for each such transaction requested."

We believe that adoption of this language will bring about some reduction in the number of requests for interlibrary loans, increase the amount of local funding available to cover the costs of those requests that are made, and thereby reduce the level of funding needed from the General Fund. Accordingly, we recommend that the Legislature (1) maintain General Fund support for TBR at the current-year level ($2.7 million) and delete the proposed $1.3 million augmentation, (2) authorize the $1 fee, and (3) allow the State Librarian to again use federal LSCA funds if a shortfall develops.

2. Library Services and Construction Act (Item 6100-211-890)

We recommend approval.

The federal Library Services and Construction Act (LSCA) has as its goals (1) extending library services to underserved areas, (2) improving library accessibility for disadvantaged individuals, (3) strengthening major metropolitan libraries and the State Library, and (4) promoting interlibrary cooperation. Funds are provided to the State Librarian who allocates them among library agencies within the state.

Each fall, the State Librarian initiates a grant application process whereby library agencies may seek funds for new services or the extension of currently funded services. In 1983–84, the State Librarian, with the advice of the California State Advisory Council on Libraries, awarded 58 grants to applicants.

The budget estimates that the state will receive $6,162,000 in federal funds for local assistance through the LSCA. This is a decrease of $6,248,000, or 50.3 percent, below the authorized expenditure level for 1982–83. This reduction primarily reflects the fact that a one-time allocation in the current year to construct and renovate public library facilities will not be available in the budget year.

We recommend approval of this item as budget.

3. Public Library Foundation Program (Item 6100-221-001)

Chapter 1498, Statutes of 1982 (SB 358) created the Public Library Fund to increase the amount of state funds provided to public libraries. Prior to Ch 1498/82, public libraries under local jurisdictions were supported primarily from local funding sources. This chapter authorized an appropriation of state funds to supplement, by up to 10 percent of a "foundation program" level, the local funding of each library. A foundation program is defined as activities of a library related to its role as a provider of information, education, and cultural enrichment to the community, and excludes capital outlay expenses.

For purposes of the act, the total cost of a library's foundation program in 1982–83 is defined as $12 times the number of persons served within the library's jurisdiction. This per capita amount is adjusted annually by the average percentage increase in unified school districts' revenue limits for the previous fiscal year. In order to receive the full 10 percent state contribution, a library must certify that the amount of local revenues actually appropriated for its foundation program equals at least 90 percent of the computed foundation program level. If local revenues total less than 90 percent of the computed level, the amount of state aid is reduced proportionately.

The Legislature appropriated $12.5 million in last year's Budget Bill to provide funding for the Public Library Foundation Program, beginning January 1, 1984. The Governor, however, vetoed $6.5 million of the amount approved by the Legislature, resulting in a net appropriation of $6 million in the current year. The State Librarian has certified that 157 public libraries are eligible to receive funding for their foundation programs in 1983–84. Based on the entitlement formula provided by Ch 1498/82 and the actual level of local support for each library's foundation program, the State Librarian has calculated total entitlements for this program in the current year to be $13.5 million, based on a half year's cost. Because the existing appropriation of $6 million is not sufficient to fully fund this

DEPARTMENT OF EDUCATION—Continued

program, each public library's apportionment has been reduced proportionately, resulting in apportionments ranging from $24 for Vernon to $818,000 for the Los Angeles Public Library.

The budget proposes a total of $12 million for the Public Library Foundation Program in 1984–85. Based on (1) the level of entitlements claimed by libraries in the current year under this program and (2) an increase of 10 percent in unified districts' total revenue limits in 1983–84, we estimate that claims for full-year funding in the budget year will total approximately $30 million.

Because these funds represent a general aid block grant to libraries, we have no analytical basis for determining how much, if any, funding should be provided for the Public Library Foundation Program in 1984–85. This is a policy decision which the Legislature must make, based on its priorities regarding the use of limited state resources. Accordingly, we make no recommendation on this matter.

DEPARTMENT OF EDUCATION—CAPITAL OUTLAY

Item 6100-301 from the Surplus Property Revolving Fund — Budget p. E 103

Requested 1984–85	$800,000
Recommendation pending	800,000

ANALYSIS AND RECOMMENDATIONS

with Budget Lang. prohibit expenditure of WD or C fund until a study of the food dist. prog. is complete

Warehouse Refrigeration

approval

We ~~withhold~~ recommend~~ation~~ on Item 6100-301-680, ~~warehouse refrigeration, pending receipt of a revised cost estimate from the Office of State Architect, information describing recent changes to the project, and the proposed method for financing the remodeling work.~~

The budget proposes $800,000 from the Surplus Property Revolving Fund to remodel 60,000 square feet of leased storage space at the Department of Education, Warehouse Distribution Center in Pomona. The department is proposing to convert a portion of dry storage space in the warehouse to refrigerated storage space.

Background. The Office of Surplus Property operates two warehouse distribution centers in the state, one in Pomona and the other in Sacramento. These centers store donated foods received through the Commodity Distribution Program administered by the U.S. Department of Agriculture. Donated foods are received in the warehouse centers and then distributed to eligible agencies throughout the state.

The department leases approximately 150,000 square feet of dry storage space in Pomona, at a monthly cost of $27,000. The lease agreement is for a period of 15 years, ending in September 1998. The department also leases approximately 72,000 square feet of refrigerated storage space from a local commercial warehouse on a month-to-month basis. The monthly cost for this storage space has averaged approximately $58,000.

According to information submitted by the department, the money included in the budget would be used to convert 60,000 square feet of leased dry storage space into refrigerated storage. This would lessen the department's reliance on month-to-month leasing of commercial storage space for refrigerated storage needs. A minor amount of commercial storage space may on occasion be leased in order to accommodate unanticipated food donations.

Cost and Scope of Remodeling Work is Uncertain. The 1984–85 budget includes $800,000 for this project. However, an Office of State Architect (OSA) budget estimate prepared for this project in 1983–84 estimated the total cost at $682,000. The amount requested in the budget year, then, is $120,000 or 17 percent higher than the 1983–84 estimate.

The department indicates that the higher estimate is based upon inflation, salary increases for labor, and other unspecified costs. Based on the construction cost index increase since last year, however, the cost of this project should have increased no more than $29,000, instead of $120,000. An increase for other reasons has not been substantiated. Moreover, we have not received a new cost estimate for this project from the OSA.

In additon, department officials indicate that the total amount of storage space to be remodeled has been reduced from 60,000 square feet to 54,000 square feet. We do not know to what extent this will affect remodeling costs.

Method of Payment Has Not Been Determined. Further, at the time this *Analysis* was prepared, it was our understanding that the method for financing the warehouse remodeling project is still unresolved. According to department officials, the proposed plan calls for the owner of the warehouse to perform the necessary work to convert the storage space. What has not been determined, however, is the method of paying for this work.

Apparently, the Department of General Services, Office of Space Management, is considering two options for financing the work. One option would involve reimbursing the owner in full for the work with capital outlay funds; the other option would involve amortizing the cost of remodeling in the lease payments. The department indicates that it is waiting for the Office of Space Management to make a *final* determination as to which option would be the least costly to the state.

We have concerns that the contract for this project may be awarded without competitive bidding. According to the department, the owner would perform the remodeling work under both financing alternatives. Under this procedure, there are no assurances that the owner's cost for this work would be the lowest cost that could be achieved. Therefore, if the Legislature chooses to fund this project, we recommend that the project be approved with the stipulation that the proposed remodeling work be competively bid.

In sum, we conclude that this project is justified. Nevertheless, we withhold recommendation on the $800,000 proposed under this item, pending receipt of (1) new cost information from the OSA, (2) an accurate description of the work that is being proposed, (3) a determination of the most cost-effective method for financing the remodeling work, and (4) assurances from the department that the proposed remodeling work will be competively bid.

52—77958

DEPARTMENT OF EDUCATION—CAPITAL OUTLAY—Continued

Supplemental Report Language

For purposes of project definition and control, we recommend that supplemental report language be adopted which describes the scope of the capital outlay project approved under this item.

DEPARTMENT OF EDUCATION—REAPPROPRIATION

Item 6100-490 from the General Fund — Budget p. E 1

ANALYSIS AND RECOMMENDATIONS

Technical Amendment Needed

We recommend that the Legislature amend the Budget Bill language contained in Item 6100-490 by specifying that it reappropriates the undisbursed balance of Item 6100-146-001 of the Budget Act of 1983, in order to correct an improper reference to the Budget Act of 1982.

The budget proposes the reappropriation on July 1, 1984, of the undisbursed balance of Item 6100-146-001 of the Budget Act of 1982 for evaluations of the Demonstration Programs in Reading and Mathematics.

The Demonstration Programs in Reading and Mathematics were established to provide cost-effective, exemplary programs in grades 7, 8, and 9, using intensive instruction. An integral component of these programs involves the evaluation of activities performed during the school year.

Completion of the evaluations typically does not occur until early in the fiscal year following the year in which the programs were conducted. For this reason, the Budget Act has, for several years, contained language reappropriating the unexpended balance of the demonstration programs' appropriation from the preceding year, for the purpose of funding these evaluations.

Our review indicates that this practice is justified. The Budget Bill, however, incorrectly references as the amount to be reappropriated the undisbursed balance of Item 6100-146-001 of the Budget Act of *1982*—an amount which has already been fully expended. Accordingly, we recommend that the Legislature amend the Budget Bill language contained in Item 6100-490 to specify that it reappropriates the undisbursed balance of Item 6100-146-001 of the Budget Act of *1983*.

CONTRIBUTIONS TO STATE TEACHERS' RETIREMENT FUND

Item 6300 from the General Fund — Budget p. E 104

Requested 1984-85	$536,045,000
Estimated 1983-84	20,500,000
Actual 1982-83	191,300,000 [a]
Requested increase $515,545,000 (2,515 percent)	
Total recommended reduction	None
Recommendation pending	$512,345,000

[a] Does not include funding for legislative mandates, which was included in this item in 1982-83 but excluded thereafter.

1984-85 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
6300-101-001	State Teachers' Retirement System: Unfunded Liability	General	$512,345,000
6300-101-001	State Teachers' Retirement System: COLAs	General	23,700,000
Total			$536,045,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. State Management of STRS. Recommend that the Legislature consider terminating the STRS, so that the funding and control of retirement benefits for teachers can be determined locally. 1629
2. Normal Costs. Recommend that the Legislature act promptly to eliminate the current shortfall in funding the "normal costs" of STRS benefits. 1631
3. State Contributions for STRS Unfunded Liability. Withhold recommendation on $512,345,000 budgeted for STRS unfunded liabilities (Item 6300-101-001), pending legislative decisions on the funding of STRS normal costs and the future of the system. 1632
4. Pension COLAs. Recommend Legislature consider improving the method of providing cost-of-living adjustments to STRS retirees. 1633

GENERAL PROGRAM STATEMENT

This item provides for the state's statutory contribution toward financing the costs of unfunded retirement benefits of members of the State Teachers' Retirement System (STRS).

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total appropriations of $536,045,000 from the General Fund to the State Teachers' Retirement Fund (STRF) in 1984-85. This amount consists of three components:

- ***Base Contribution.*** The budget proposes to provide $301 million to the STRF as the state's basic annual contribution, pursuant to exist-

CONTRIBUTIONS TO STATE TEACHERS' RETIREMENT FUND—Continued

ing law (Sections 23401 and 23402 of the Education Code).

- ***Funding for Deferred 1983–84 Contribution.*** The budget also proposes to "pay back" the STRF for funds which were approved by the Legislature for the state's 1983–84 contribution ($211.3 million) but later vetoed by the Governor.
- ***COLA for Retirees.*** The 1984–85 request also includes $23.7 million to pay for supplemental, *ad hoc* cost-of-living adjustments (COLAs) for those STRS retirees whose benefits have been eroded most by inflation. In the current year, $20.5 million was provided for this purpose.

The Governor's Budget for 1983–84 originally proposed $211.3 as the state's STRF contribution. The Legislature, however, augmented this amount by (1) $20 million, as a partial payment of the "incremental" addition to the base contribution required by Ch 282/79 (see below), and (2) $20.5 million to provide the special COLA to retirees, consistent with Ch 1606/82 (SB 1562). The Governor vetoed all funds except for the COLA monies.

Table 1 summarizes total General Fund expenditures to STRF, by component, for the past, current and budget years.

Table 1
State General Fund Contribution to State Teachers' Retirement Fund 1982–83 through 1984–85 (in millions)

Component	*Actual 1982–83*	*Estimated 1983–84*	*Proposed 1984–85*
Base Contribution	$171.3	—[a]	$221.0
Deferral of 1983–84 Contribution	—	—	211.3
Incremental Contribution	20.0	—[b]	80.0
Funding for COLA	—	$20.5	23.7
Total Expenditures	$191.3	$20.5	$536.0

[a] $191.3 million was proposed in the 1983–84 Governor's Budget, but was vetoed by the Governor.
[b] The Legislature included $20 million for this component in the 1983 Budget Bill, but it was vetoed by the Governor.

Statutory Requirements for State Funding of STRS Unfunded Liability

Beginning in 1972, the Legislature began appropriating $135 million to the STRF as a means of reducing the existing unfunded liability of the system. This amount was not sufficient to solve the problem, however, so in 1979 the Legislature enacted Ch 282 (AB 8), which—among other things—provided for future increases in the state's annual contribution. It did so by: (1) increasing the state's base contribution by the annual change in the California Consumer Price Index (CCPI), and (2) increasing the adjusted base contribution by designated increments every year until 1994–95, when it would be $280 million. Beyond that date, this incremental amount will also be increased by the CCPI increase.

For various reasons, the Legislature has never appropriated the *full* amount called for by Chapter 282. Table 2 provides a comparison of the contributions required by the measure with the amounts actually appropriated in the Budget Act for the five-year period 1980–81 through 1984–85.

Table 2

State Contributions to the State Teachers' Retirement Fund As Proposed by Ch 282/79 and Appropriated Amounts

1980–81 through 1984–85

(in millions)

	1980–81		*1981–82*		*1982–83*		*1983–84*		*1984–85*	
Component	*Required by Chapter 282*	*Appropriated*	*Required by Chapter 282*	*Appropriated*	*Required by Chapter 282*	*Appropriated*	*Required by Chapter 282*	*Appropriated*	*Required by Chapter 282*	*Proposed*
Baseline Contribution	$144.3	$144.3	$165.8	$161.6	$185.0	$171.3	$205.2	—	$209.5	$209.5
CCPI Adjustments	21.5 [a]	17.3 [b]	19.2 [a]	9.7 [c]	20.2 [a]	— [d]	4.3 [a]	—	11.5 [a]	11.5 [a]
Subtotals	($165.8)	($161.6)	($185.0)	($171.3)	($205.2)	($171.3)	($209.5)	(—)	($221.0)	($221.0)
Incremental Contribution	10.0	10.0	20.0	20.0	40.0	20.0	60.0	—	80.0	80.0
Totals	$175.8	$171.6	$205.0	$191.3	$245.2	$191.3	$269.5	—	$301.0	$301.0

[a] Adjustments to the baseline contributions, based on the CCPI of the preceding year (as calculated by the Department of Finance). The department's CCPI figures are fiscal-year averages, as compared with the June-to-June CCPI change used by STRS to calculate these adjustments.

[b] Based on a 12 percent increase *in lieu* of a statutory CCPI increase of 14.9 percent.

[c] Based on a 6 percent increase *in lieu* of a statutory CCPI increase of 11.6 percent.

[d] No adjustment adopted or proposed.

CONTRIBUTIONS TO STATE TEACHERS' RETIREMENT FUND—Continued

Pending Court Cases Seek Retroactive Payment of Shortfalls in State Contributions

Following the Governor's veto of the $211.3 million state contribution from the 1983 Budget Act, the California Teachers' Association (CTA) filed a lawsuit against the state seeking repayment of these contributions and the retroactive payment of $49.9 million in total "shortfalls" from Chapter 282 funding requirements for the 1980–83 period (as calculated by STRS in July 1983). Thus, the CTA suit requests a total payment of $261.2 million from the state to the State Teachers' Retirement Fund.

Shortly after the CTA action, the Teachers' Retirement Board of the STRS also filed suit against the state, requesting payment of contribution "shortfalls" in the amount of $330.2 million plus interest on the court awarded amount. The amount in the STRS suit is based on updated STRS estimates.

These lawsuits have now been combined into one action, which is scheduled to be heard on February 22, 1984, in the Court of Appeals, Third Appellate District. Although the suit initially was filed against the State Controller, the Governor and the Department of Finance have intervened as real parties of interest in this action.

ANALYSIS AND RECOMMENDATIONS

The STRS Funding Problem

In our 1983–84 *Analysis* (pp. 1463–1465), we discussed the nature and scope of the STRS funding problem. Basically, the problem has two major components:

"Normal Costs" Have Never Been Funded. The normal cost (that is, the cost of funding retirement benefits *earned* in a given year) have never been adequately funded. From its inception in 1913 until 1972, the system was financed on a "pay as you go" basis, using the annual income from minimal employers' and employees' contributions to pay benefits to retirees. During this period, no funds were set aside to cover the accruing cost of future benefits being earned by the working STRS membership.

In 1972, the Legislature enacted legislation establishing a program providing for partial reserve funding of accruing benefits. This legislation increased employers' and teachers' contributions to the STRS (each pays 8 percent of salary), and required annual contributions of $135 million from the General Fund for the cost of benefits already accrued. This program, however, did not provide for a fully funded system, as costs were *growing* due to higher salaries being earned by active teachers and additional benefits provided to retired teachers. As of 1981 (when the last actuarial valuation was performed), the normal costs of STRS benefits were still not being funded. As shown in Table 3, the funding gap was 3.2 percent of STRS payroll. Based on a projected 1984–85 STRS payroll of $7.7 billion, this 3.2 percent "gap" would be equal to about $246 million.

The STRS Has a Large and Growing Unfunded Liability. Because normal costs have never been adequately funded, the STRS has accumulated a large unfunded liability (that is, the cost of benefits earned in prior years exceed the value of current assets). As of the last valuation in 1981, the consulting actuary estimated the size of the STRS's unfunded liability to be $13.2 billion. Although the state's annual General Fund contributions toward this unfunded liability increased from $135 million in 1972–73 to a proposed $301 million in 1984–85, the size of the unfunded liability continues to grow. Currently, it is estimated to be about $15 billion.

Table 3
State Teachers' Retirement Fund
Current Contributions and Funding Requirements
As of June 30, 1981

	Percent of STRS Payroll[a]	*1984-85 Equivalent Cost (millions)*[b]
Normal Costs	19.2%	$1,478
Contributions:		
Employers (school districts)	8.0	616
Employees (teachers)	8.0	616
Shortfall	3.2	246
Unfunded Liability		
State Contribution	3.9%[c]	$301
Additional Amounts Needed to:		
Achieve Infinite Funding[d]	1.7	131
Amortize over 50 years	1.8	139
Amortize over 40 years	2.8	216
Amortize over 30 years	4.6	354

[a] Based on long-range, level contribution rates, as calculated in the last actuarial valuation (June 30, 1981).
[b] Based on projected STRS payroll of $7.7 billion in 1984-85.
[c] This figure is 0.2 percent more than the 3.7 percent figure shown in the 1981 valuation, because it is based on the Chapter 282 funding requirement for 1984-85.
[d] Unfunded liability would not be amortized. It would grow at same rate as STRS payroll.

As Table 3 shows, the state's base contribution toward the unfunded liability is equal to 3.9 percent of the STRS payroll. The system would need an additional 1.7 percent (or $131 million) annual contribution from some source just to *limit the rate of growth* in the unfunded liability to the rate of growth in the STRS payroll ("infinite funding"). Alternatively, the unfunded liability could be *eliminated* by amortizing this debt over several decades. As Table 3 indicates, the longer the amortization period, the smaller the necessary annual contribution.

The contribution rates and 1984-85 amounts in Table 3 merely indicate the *approximate* scope of the unfunded liability problem. They are not precise estimates of current contributions and funding requirements, as they are based on actuarial data which are three years old. A new valuation (as of June 30, 1983) is currently under way for the STRS, and the updated actuarial data from that valuation will be available in April 1984.

The Legislature Should Consider Ending State Management of STRS

We recommend that the Legislature consider terminating—on a prospective basis—the State Teachers' Retirement System, so that the funding and control of retirement benefits for teachers can be locally determined.

Currently, the state plays a central role in the provision of retirement benefits for the state's teachers. Specifically, it:

CONTRIBUTIONS TO STATE TEACHERS' RETIREMENT FUND—Continued

- Manages the STRS,
- Determines in law the level of retirement benefits and the contribution rates required of employees and employers,
- Bears the entire cost of benefit *increases* (because benefits can only be increased by a state mandate), and
- Contributes heavily ($512 million proposed in 1984–85) toward the STRS unfunded liability, and pays indirectly—through apportionments to the school districts—most of the employers' STRS contributions.

Our analysis of the state's extensive involvement in local retirement indicates that it may be inappropriate, for several reasons. First, the state's active role with regard to retirement benefits appears to be inconsistent with its *passive* role with regard to all other forms of teacher compensation. For instance, the most significant form of compensation to teachers is, of course, salary. Yet the issue of salary levels paid to teachers is one which is left almost entirely to local school districts and their employees through the collective bargaining process.

Second, the establishment of what is basically a state-run system limits the choices of both school districts and school teachers. Districts are required to contribute 8 percent of salary to STRS in order to fund a single retirement benefit structure. Some districts, however, might prefer to use those funds to finance other pension plans that better meet their needs. Similarly, teachers are required to contribute 8 percent of their salaries to STRS for a single defined benefit structure, when, in fact, the retirement needs of individuals vary dramatically. Some teachers may prefer to take their compensation in forms other than retirement—perhaps because their spouses already have adequate pension plans. Other teachers may need or want an even more generous retirement allowance.

Finally, in establishing the STRS, the state has—ironically—limited its fiscal control over the costs of retirement benefits. Because the state designated the rates to be paid by employers and employees, the Legislature may now feel compelled (or, worse, legally obligated) to pick up some or all of the STRS unfunded liability and/or normal cost shortfall, both of which resulted because employer and employee rates were not set and periodically adjusted so as to keep pace with the costs of the system.

For these reasons, we recommend that the Legislature consider terminating the STRS *on a prospective basis.* If this were done, the state's ongoing management responsibilities would be limited to the benefits that *current* STRS members and retirees *had already accrued as of the termination date.* Thus, the recommendation would not in any way affect benefits *already vested* through STRS—that system would continue to function in order to guarantee the payment of these already-accrued benefits. From the termination date forward, however, any benefits accruing to existing and new teachers would be determined by the school districts and/or superintendents of schools through negotiations with their employees under collective bargaining.

In turning over the responsibility for providing retirement benefits to local agencies, the Legislature should *not* give up all control over teacher retirement systems. It should still regulate the financial soundness of locally adopted systems. The Legislature might want to do even more. If, for example, it wanted to ensure that districts provide a certain *minimum* level of pension benefits to teachers after the termination date, it could require—as a condition of receiving apportionment aid—that districts provide such benefits to teachers. Or, if the Legislature wanted to have a "statewide" system that would provide for transferability of benefits, it could authorize the Public Employees' Retirement System to establish some basic plans that would be made available to any teacher in the state.

As a means of implementing our recommendation, the Legislature might want to request the STRS study panel, as established by Resolution Chapter 123, Statutes of 1983, to examine the advantages and disadvantages of the state terminating its direct management and control over the existing teachers' pension system. The panel, which has as its mandate to examine the funding and the benefit structure of STRS, is scheduled to report to the Legislature and Governor by December 1, 1984.

Recommend Legislative Action to Fully Fund Normal Costs

We recommend that the Legislature act promptly to eliminate the current shortfall in funding for the normal cost of the STRS.

In *Perspectives and Issues* (Part 3), we discuss some of the basic issues confronting the Legislature with regard to funding of the state's retirement systems. In that discussion, we recommend that the Legislature give the highest priority to eliminating any shortfall in funding for a system's normal costs (that is, the costs of funding retirement benefits which are being earned in a given year).

In past years, most of the discussion concerning funding for the STRS has centered around the system's large unfunded liability. This unfunded liability is, indeed, a problem. In our judgment, however, the shortfall in funding for the STRS's normal cost is a more immediate and serious concern. It is this shortfall which brought about the unfunded liability in the first place. The shortfall in funding the normal cost, moreover, is the reason why the unfunded liability continues to grow. Consequently, we believe fully funding normal costs should be the first step in checking the growth of the STRS's unfunded liability. Accordingly, we encourage the Legislature to fully fund normal costs as soon as practical, *and prior to addressing the STRS unfunded liability.*

As noted in our earlier discussion of the STRS funding problem, the latest actuarial data available indicate a shortfall of 3.2 percent of payroll in funding for the STRS's normal costs (as of 1981). Given a projected STRS payroll of $7.7 billion in 1984–85, it would take $246 million to fund the shortfall in the budget year. Ongoing funding requirements in future years would increase in proportion to the STRS payroll, assuming no change in the STRS benefit structure. The normal cost contribution requirement may change, when the results of the new actuarial valuation are published in April 1984.

Total Subvention Assistance: A Guide to Selecting Funding Options

If the Legislature decides to eliminate the normal cost shortfall, it still needs a basis for choosing among various options for funding these costs. In considering the options for eliminating shortfalls in *state* retirement systems (please see, for example, our analysis of a similar shortfall, under Item 0390—the Judges' Retirement System), we recommended that the Legislature make decisions on the basis of *total compensation* provided to employees. That is, the Legislature should view the state's contribution to a state employee's retirement as just *one* aspect of the employee's overall compensation—along with salary, other fringe benefits and the general working environment—and set total compensation offered to state employees at the level required to hire new and keep existing employees.

CONTRIBUTIONS TO STATE TEACHERS' RETIREMENT FUND—Continued

Similarly, we recommend that the Legislature view the state's contribution to the STRS as one component of *total subvention assistance* provided to local school districts. The state currently finances—through apportionment and other aid—the vast majority of local school expenditures. We recommend that the Legislature consider STRS retirement costs as just another expense of providing educational services, and that it decide its appropriate contribution toward the expenses as part of its decision as to the total amounts of money to be distributed to schools each year.

If the Legislature concludes that the level of total assistance to K–12 districts and county offices is *not* adequate, the state would want to pick up part or all of the normal cost shortfall. If, on the other hand, the Legislature determined that the level of subvention aid provided to school districts is *adequate*, it would want to have the shortfall made up at the local level, through increased employer and/or employee contributions or through the reduction—on a perspective basis—of retirement benefits.

The STRS Unfunded Liability Issue

We withhold recommendation on $512.3 million proposed in Item 6300-101-001, pending decisions by the Legislature on funding STRS normal costs and unfunded liabilities.

The budget proposes to appropriate $512.3 million from the General Fund to the STRS, pursuant to Ch 282/79. This amount includes $211.3 million which was appropriated by the Legislature for 1983–84 but deleted by the Governor from the 1983 Budget Act.

While the state's contribution apparently is intended to address the system's unfunded liability, the current level of funding is not adequate to stem the *growth* in the unfunded liability, let alone enough to amortize the liability over a specified number of years (please see Table 3, above).

We find it difficult to make a recommendation on this proposed amount, for several reasons:

Responsibility for Liability. While the state has assumed the role of addressing the unfunded liability, it may want to consider having employers and employees contribute to any proposed solution aimed at reducing or eliminating the system's unfunded liability.

Intergenerational Equity. As we note in *Perspectives and Issues* (Part 3), there is no analytical basis for requiring one group of taxpayers (for example, current taxpayers) to bear a greater burden in retiring an unfunded liability not of its own making, rather than requiring some other group (that is, a future generation) to bear this burden. Consequently, it is impossible for us to recommend a level of contributions the state *should* make toward the unfunded liability in any one year.

Other Decisions Could Affect Level of Contribution. Any decision the Legislature makes on the two issues discussed above—terminating the system and funding normal costs—might affect its policy toward the unfunded liability problem. For example, if the Legislature decided to close down the system on a prospective basis, it would not be necessary to appropriate one-half billion dollars *now*, in order to fund accrued benefits which will have to be paid many years hence. This money could be used for other purposes, including an increase in K–12 apportionments.

Objective of State Contributions. Finally, it is unclear to us as to the objective of the state's STRS contributions. Given that the Chapter 282

—required amounts do not amortize the unfunded liability or result in "infinite funding," the state's annual contribution appears to be based primarily on what the state can afford at the time.

Consequently, we withhold recommendation on the $512.3 million requested for the state's contribution to the STRS, pending legislative determination of the need for and objective of state contributions to STRS.

Ad Hoc Cost-of-Living Adjustments (COLA)

We recommend approval.

The budget proposes a General Fund appropriation of $23.7 million (Item 6300-111-001 to the State Teachers' Retirement Fund to finance a supplemental, *ad hoc* COLA for certain STRS retirees. Enacted by Ch 1606/82 (SB 1562), this supplemental COLA, which ranges from average monthly increases of 9.5 percent to 0.1 percent, depending on the pension base, is provided on a *pro rata* basis for the purpose of improving the purchasing power of pensions for those STRS retirees who have been most affected by inflation. This COLA: (1) is not cumulative, (2) does not become part of the base pension, and (3) is paid only if the necessary funding is provided in the annual Budget Act. The additional benefit is equal to five percent of the average, annualized statewide salary increase granted to public teachers over the three preceding school years.

The 1983 Budget Act provided a General Fund appropriation of $20.5 million to fund this COLA in 1983–84. The $23.7 million proposed for 1984–85 is the amount required to fund this benefit, pursuant to the index in Chapter 1606, as determined by the STRS.

In addition to the *ad hoc* COLAs provided by Chapter 1606, Ch 1213/83 (SB 638) also provides *ad hoc*, supplemental increases to *all* STRS retirees whose pensions are at levels that are less than 75 percent of their original purchasing power. These COLAs also are not cumulative and do not become part of the pension base. They are financed, subject to the availability of funds, by a continuous appropriation of revenues from the sale or lease of school lands and *in lieu* lands received by the state from the federal government for support of schools. An estimated $10 million is expected to be available from this source to finance provisions of Chapter 1213 in 1984–85.

We recommend approval of this proposed appropriation. Because of the statutory limit on annual COLAs (2 percent per year, uncompounded), long-term STRS retirees have been particularly hard-hit by the high inflation rates of recent years. Furthermore, the Legislature, in enacting both Chapter 1606 and Chapter 1213, and in augmenting the 1983 Budget Act by $20.5 million for Chapter 1606 COLA payments, has expressed its intent regarding the maintenance of STRS retirees' purchasing power.

Legislature Should Consider Alternative Method of Funding COLAs

We recommend that the Legislature consider improving the method of providing cost-of-living adjustments to STRS retirees.

Every year, the Legislature considers bills which would grant STRS retirees cost-of-living adjustments in excess of the statutory 2 percent adjustment, in order to restore members' lost purchasing power. As noted above, in times of high inflation, the 2 percent "cap" leads to an erosion of the basic retirement benefit, in terms of purchasing power.

In order to avoid having this issue surface every year, we recommend that the Legislature consider restructuring the basic STRS benefit structure to provide a more adequate COLA. This could be accomplished by

CONTRIBUTIONS TO STATE TEACHERS' RETIREMENT FUND—Continued

replacing the 2 percent COLA with an adjustment based on a specified percentage of an inflation index (for example, the annual adjustment could be 75 percent of the annual change in the California Consumer Price Index).

If the Legislature were receptive to this change, it could be implemented for *active* STRS members *at no additional costs.* This would involve reducing the base retirement benefit in return for guaranteed higher COLAs in subsequent years. The change could *not* apply to current retirees without a significant increase in state funding, however.

The Legislature might want to ask the STRS Study Panel to examine the feasibility of implementing such a change, as part of its task of reviewing the STRS benefit structure.

Legislative Mandates

We recommend approval.

The state currently reimburses local entities (primarily school districts) for their increased STRS costs in complying with three state mandates. These mandates, along with the state's expenditures for reimbursements in the current and budget years, are shown in Table 4. Prior to 1983–84, the state appropriated funds for these mandates in Item 6300. Since 1983–84, however, the annual appropriations for these reimbursements have been included in Item 9680 ("Mandated Local Programs").

Table 4
State Teachers' Retirement Fund
Expenditures for State Mandated Costs
1983–84 and 1984–85
(in millions)

Programs	*Estimated 1983–84*	*Proposed 1984–85*	*Change From 1983–84*	
			Amount	*Percent*
Ch 89/74: retirement credit for unused sick leave	$11.1	$11.1	—	—
Ch 1036/79: *ad hoc* COLAs for STRS retirees	22.1	23.9	$1.8	8.1%
Ch 1286/80: increase in STRS minimum benefits	7.8	8.4	0.6	7.7
Total expenditures	$41.0	$43.4	$2.4	5.8%

The budget proposes a General Fund appropriation of $43,399,000 (Item 9680-101-001) to reimburse local entities for their retirement program costs of complying with the three legislative mandates. This amount is $2,394,000, or 5.8 percent, more than estimated current-year expenditures for this purpose. The increase in proposed 1984–85 expenditures is the result of projected growth in the STRS payroll. The program costs of these mandates are amortized over a 15-year funding period at specified, constant percentages of STRS payroll.

The expenditure proposed for each of the three mandated programs represents the *actuarial* estimates of the STRS program costs resulting from these mandates. In the case of Chapter 1036 and Chapter 1286 mandates, the actuarially projected costs have proved to be accurate. In the case of Ch 89/74 (retirement credit for unused sick leave for STRS members), however, the actuarial estimate of $11.1 million proposed for 1984–85 is $20.9 million *less than* the STRS-projected cost of $32 million. Under the current funding arrangement for these mandated costs, in effect since

July 1, 1981, this projected funding deficiency will be absorbed by the State Teachers' Retirement Fund. This is because the state funds for the actuarial cost estimates of these mandates are now appropriated directly to the State Teachers' Retirement Fund, instead of being paid to school districts as reimbursement for their actual retirement program costs paid to STRS (as required under the funding arrangement in effect prior to July 1, 1981).

CALIFORNIA ADVISORY COUNCIL ON VOCATIONAL EDUCATION

Item 6320 from the General Fund and Federal Trust Fund — Budget p. E 105

Requested 1984–85	$226,000
Estimated 1983–84	249,000
Actual 1982–83	227,000
Requested decrease (excluding amount for salary increases) $23,000 (−9.2 percent)	
Total recommended reduction	None

1984–85 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
6320-001-001—Support		General	$26,000
6320-001-887—Support		Federal Trust	(200,000)

GENERAL PROGRAM STATEMENT

The federal Vocational Education Act of 1976 requires the state to establish an advisory council on vocational education and specifies the council's membership and duties. The California Advisory Council on Vocational Education (CACVE) was established by Ch 1555/69 in order to comply with this mandate.

The CACVE is mandated by state and federal law to (1) advise the State Board of Education, the Legislature, and other specified agencies on policies concerning vocational education and related federal programs; (2) evaluate programs, services, and activities involving occupational education; (3) provide technical assistance to local vocational education advisory committees; and (4) prepare an annual evaluation report. It consists of 25 members and is staffed by 3.8 positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures totaling $226,000 from state and federal funds for support of the CACVE during 1984–85. This is a reduction of $23,000, or 9.2 percent, from estimated current-year expenditures. The budget also proposes to increase staffing by 0.3 positions, to be funded by a redirection from operating expenses. Funding for the council in the prior, current, and budget years is summarized in Table 1.

The budget proposes $26,000 from the General Fund to support the council, an increase of $2,000, or 8.3 percent, over the current year. This amount will increase by the cost of any salary or staff benefit increase approved for the budget year.

CALIFORNIA ADVISORY COUNCIL ON VOCATIONAL EDUCATION—Continued

Table 1
Funding for the California Advisory Council on Vocational Education 1982–83 through 1984–85 (dollars in thousands)

	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Change Amount*	*Change Percent*
Federal funds	$204	$225	$200	–$25	–11.1%
General Fund	23	24	26	2	8.3
Reimbursements	4	—	—	—	—
Totals	$231	$249	$226	–$23	–9.2%
Personnel-Years	5.3	3.8	4.1	0.3	7.9%

The budget also proposes expenditures of $200,000 from the Federal Trust Fund. This is $25,000, or 11 percent, below estimated expenditures in the current year. The current year amount, however, includes expenditures of $25,000 which are being financed with funds carried over from 1982–83.

ANALYSIS AND RECOMMENDATIONS

We recommend approval. The 1982 Budget Act appropriated $24,000 from the General Fund for support of CACVE in 1982–83. This amount was $75,000 less than the amount of General Fund support in 1981–82. The Legislature continued this level of support in 1983–84, and the budget proposes to maintain it in 1984–85, adjusted for merit salary and price increases.

The council's principal activities in the current year consist of reviewing the annual state plan on vocational education, and developing legislation concerning state policy on vocational education. The council intends to set its agenda for 1984–85 in June, 1984.

CALIFORNIA OCCUPATIONAL INFORMATION COORDINATING COMMITTEE

Item 6330 from the Federal Trust Fund — Budget p. E 106

Requested 1984–85	$125,000
Estimated 1983–84	116,000
Actual 1982–83	102,000
Requested increase (excluding amount for salary increases) $9,000 (+7.8 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The California Occupational Information Coordinating Committee (COICC) was established by Ch 972/78 pursuant to a requirement contained in the federal Vocational Education Act. The committee is responsible for the development of the California Occupational Information

System, which provides occupational planning and guidance information to educational institutions, the Employment Development Department, and private industry.

The committee has two authorized positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $125,000 from the Federal Trust Fund for support of the COICC in 1984–85. This is an increase of $9,000, or 7.8 percent, over estimated expenditures in the current year.

In the current year, the COICC will have to revert funds to the federal government as a result of the Governor's hiring freeze, thereby reducing 1983–84 expenditures below the $125,000 baseline level. Consequently, the 1984–85 budget represents a restoration of the 1983–84 budget base.

Table 1 shows COICC funding for the prior, current, and budget years.

Table 1
Funding for the California Occupational Information Coordinating Committee
1982–83 through 1984–85
(dollars in thousands)

	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Change Amount*	*Change Percent*
Federal funds	$102	$116	$125	$9	7.8%
Personnel-Years	1.6	2.0	2.0	—	—

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

During 1984–85, the COICC intends to develop a plan for the implementation of a statewide labor market information system, pursuant to the requirements of Ch 1234/83 (SB 178). The coordinating committee also expects to conduct workshops for vocational counselors and planners on the use of labor market information.

COMMISSION ON TEACHER CREDENTIALING

Item 6360 from the Teacher Credentials Fund — Budget p. E 110

Requested 1984–85	$5,945,000
Estimated 1983–84	5,527,000
Actual 1982–83	4,862,000
Requested increase (excluding amount for salary increases) $418,000 (+7.6 percent)	
Total recommended reduction	259,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Credential Processing. Reduce Item 6360-001-407 by $289,-000.*** Recommend reduction in licensing staff of 13.2 positions to reflect the anticipated drop in workload. Further, recommend adoption of Budget Bill language requiring (1) 1640

COMMISSION ON TEACHER CREDENTIALING—Continued

the commission to report quarterly on the number of credential applications and (2) the Department of Finance to reduce the number of positions authorized for the commission if the number of applications is less than anticipated.

2. ***Electronic Data Processing. Augment Item 6360-001-407 by $30,000.*** Recommend one-time augmentation of $30,000 for a study to determine the commission's electronic data processing requirements. Further recommend adoption of supplemental report language directing the commission to examine the feasibility of improving its management information systems and its use of equipment in order to increase its operating efficiency and provide better information to the Legislature. 1641
3. ***Prudent Reserve.*** Recommend adoption of supplemental report language directing the Department of Finance, in conjunction with the commissioner, to re-examine what a "prudent reserve" is for the Teacher Credentials Fund because the methodology originally used by the department was flawed. 1643
4. ***Fingerprint Fees.*** Recommend adoption of Budget Bill language requiring the commission to increase fingerprint processing fees from $18 to $27 so that it will fully recover the cost of fingerprint processing. (Potential increase in revenues to the Teacher Credentials Fund: $268,000.) 1645

GENERAL PROGRAM STATEMENT

The Commission on Teacher Credentialing (CTC) is responsible for (a) developing standards and procedures for credentialing teachers and administrators, (b) issuing and revoking credentials, (c) evaluating and approving programs of teacher training institutions, and (d) establishing policy leadership in the field of teacher preparation. The commission, which is supported by the Teacher Credentials Fund, has 108.5 authorized positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $5,945,000 from the Teacher Credentials Fund for support of the commission in 1984–85. This is an increase of $418,000, or 8 percent, over estimated current-year expenditures. This increase will grow by the amount of any salary or staff benefit increase approved for the budget year. Table 1 summarizes funding for the commission in the prior, current, and budget years.

Table 2 shows the changes proposed in the commission's budget for the budget year. As the table indicates, an increase of $280,000 is required to maintain the existing level of service. Of this amount, $86,000 is required to provide full-year funding in 1984–85 for compensation increases granted on January 1, 1984. The budget also reflects a reduction of $130,000 associated with one-time expenditures for EDP equipment purchase and short-term contracts in 1983–84. In addition, the budget proposes an augmentation of $191,000 for (1) bilingual assessment instruments and (2) EDP equipment. Finally, the budget reflects a reduction of 3.3 positions and $53,000, due to a decrease in the number of teacher credential applications.

Table 1
Commission on Teacher Credentialing
Budget Summary
1982–83 through 1984–85
(dollars in thousands)

	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*	*Change Amount*	*Change Percent*
Elementary and pre-school professional personnel	$1,002	$1,140	$1,187	$47	4.1%
Secondary, adult and vocational professional personnel	833	945	981	36	3.8
Instructional specialists for all grades	466	531	700	169	31.8
Professional administrative and support service personnel	303	342	377	35	10.2
Professional standards for certificated personnel	958	1,088	1,141	53	4.9
Administration	1,300	1,481	1,559	78	5.3
Total Expenditures	$4,862	$5,527	$5,945	$418	7.6%
Teacher Credentials Fund	*$4,860*	*$5,527*	*$5,945*	*$418*	*7.6%*
Reimbursements	*$2*	—	—	—	—
Positions	105.7	108.5	105.2	−3.3	−3.0%

Table 2
Proposed Budget Adjustments
Commission on Teacher Credentialing
1984–85
(in thousands)

1983–84 Adjusted Base Budget		$5,527
A. Changes to Maintain Existing Budget		280
1. Annualized cost of 1983–84 compensation adjustments	$86	
2. Nonrecurring expenditures	−129	
3. Price increase	280	
4. Merit salary adjustments	43	
B. Budget Change Proposals		138
1. Bilingual assessment instruments for special education professionals	$57	
2. Bilingual assessment instruments for credential holders	119	
3. EDP equipment	15	
4. Reduction in credential processing	−53	
Total 1984–85 Budget		$5,945
Total Change from 1983–84:		
Amount		$418
Percent		7.6%

ANALYSIS AND RECOMMENDATIONS

Augmentation for Bilingual Assessment Instruments is Warranted

The commission's request for $176,000 to develop examinations which measure bilingual competency is warranted because (1) the examinations have been statutorily mandated and (2) the costs of examination development will be fully offset through fees charged to examinees. Accordingly, we recommend that the funds requested for this purpose be approved.

COMMISSION ON TEACHER CREDENTIALING—Continued

Credentials Applications Have Declined

We recommend that the commission's licensing unit be reduced by $289,000 and 13.2 positions to reflect the anticipated drop in workload. We further recommend that the Legislature adopt Budget Act language requiring (1) the Commission on Teacher Credentialing to report quarterly on the number of applications for teaching credentials it has received, and (2) the Department of Finance to make reductions in staffing in an amount proportional to any decline in applications beyond that anticipated in the budget. (Reduce Item 6360-001-407 by $289,000.)

Workload Shortfall in the Current Year. In last year's *Analysis,* we pointed out that implementation of the California Basic Educational Skill Test (CBEST) could reduce the number of applications for teaching credentials submitted to the CTC. At the time, the CTC was expecting to receive 109,000 applications for 1983–84.

A decrease in the number of credential application does, in fact, appear to have occurred. Based on its experience during the first five months of 1983–84, the commission now expects to process only 85,000 applications in the current year—28 percent less than the budgeted level.

The Commission's Request for 1984–85. The commission projects that the number of credential applications received in the budget year will be approximately the same as the number currently estimated for 1983–84 (85,000). In recognition of the decline in workload relative to what the 1983–84 budget anticipated, the commission is proposing to reduce its licensing staff in 1984–85 by 3.3 positions, for a savings of $53,000. The reduction proposed by the commission for 1984–85 amounts to 6 percent of the licensing unit staff—considerably less than the 28 percent shortfall expected in the number of credential applications.

The commission reports that its estimates of workload in the current and budget-years may not be reliable. It is having difficulty projecting credential licensing workload, for the following reasons:

- ***The current information system is inadequate.*** CTC bases its workload projections on the number of applications actually received in prior years; it does not attempt to forecast the number of individuals that are likely to apply for credentials in the future. Thus, its current method for estimating workload will not be able to fully reflect the effects of implementing CBEST until the commission has had more experience with the test.
- ***CBEST requirements have been modified.*** Chapter 536, Statutes of 1983, which became effective in July, 1983, exempts from the CBEST credential applicants who were required to take a proficiency examination in the state from which they received their original credential. Additionally, individuals who are applying for (1) adult education credentials, (2) child care center permits, (3) authorization to teach an additional subject, or (4) a health profession credential are exempted from the requirements of CBEST. Furthermore, Ch 1038/83 exempts from the CBEST individuals who are applying for vocational education designated subjects credentials. The effects of these exemptions on the number of persons that will apply for credentials is not known at this time. The exemptions could, however, increase the number of individuals who apply for credentials.

- *Analysis of Staffing Requirements.* We acknowledge the difficulty faced by the commission in attempting to predict the number of credential applications, given (1) recent changes in law and (2) its inadequate information system. Nevertheless, we believe that based on the commission's own workload projection, the commission will be overstaffed in 1984–85.

In 1981, the commission prepared a program base analysis which was approved by the Department of Finance and the Legislature. This analysis provides the basis for determining the commission's staffing requirements. This analysis showed that 114,502 applications could be processed by 54 staff—which works out to 2,120 applications per position. The 1984–85 Budget proposes that 85,000 applications be processed by 53.2 staff—or 1,598 per position. This represents a *decline in staff productivity of 33 percent.* We are not aware of any consideration that would justify such a sharp decline in productivity. Consequently, we recommend that the budget be based on the commission's workload estimate (85,000) and the approved productivity level (2,120 applications per position). This would result in a reduction of 13.2 positions and an estimated savings to the Teacher Credentials Fund of $289,000 thereby increasing the projected surplus in the fund on June 30, 1985 from $66,000 to $355,000.

We have been informed by the CTC that a revised base analysis has been submitted to the Department of Finance. It was not available, however, for our review at the time this *Analysis* was prepared. If, as a result of this analysis, a change in the workload standards appear to be warranted, we will so advise the Legislature and modify our recommendation accordingly.

We also believe that, given recent fluctuations in credential applications received by the commission, the Legislature needs periodic reports on application workload so that overbudgeting can be avoided. Consequently, we recommend that the Legislature adopt the following Budget Bill language:

> "The commission shall report on a quarterly basis, the number of credential applications received and the number projected for the remainder of the fiscal year. If the number projected is less than 85,000, the Department of Finance shall reduce the number of authorized positions for the commission in an amount proportional to the difference between 85,000 and the number of credentials projected to be processed, and report this reduction to the Legislature within 30 days of the end of the quarter in which the reduction occurs."

Similar language was included in the 1983 Budget Act. This language, however, required the commission to report only *past* data, it did not provide for any ongoing monitoring of actual workload in the current year. We believe periodic reports are necessary if overbudgeting is to be avoided.

Automation Requirements Need to be Identified

We recommend that the commission's budget be augmented by $30,000 for contractual services to fund an examination of the electronic data processing needs in an effort to improve (1) the efficiency of application processing and (2) the commission's information gathering and reporting capabilities.

In our review of the commission's operations, we identified several areas where improved management information systems or the use of automat-

COMMISSION ON TEACHER CREDENTIALING—Continued

ed equipment potentially could improve commission efficiency. These areas include:

- recording and tracking of applications,
- preparing (typing) the final credential document,
- microfilming documents relating to the application,
- preparing routine commission agenda material,
- providing information updates to institutions of higher education, and
- forecasting changes in credential applications.

As we noted earlier, CTC currently bases workload projections entirely on past data because it does not have the capability to forecast this information on a prospective basis. We believe such projections could be made, thereby giving the Legislature a better basis for determining the commission's staffing requirements, if the existing management information system was modified to systematically accumulate data from institutions of higher education on the number of potential teacher credential candidates who will complete their academic programs. Additionally, better use of automated equipment would allow the commission to project the number of credentials that must be *renewed* in a given year, using information on the number of credential holders.

The commission reports that it is presently evaluating the possibility of applying new technologies to its existing data bases as a means of (1) improving the processing of credential applications and reducing turnaround time; (2) increasing efficiency, particularly in those organizational units that rely on labor-intensive manual or mechanical systems; and (3) establishing teacher supply-demand reporting capabilities within the agency.

Improved technologies in areas such as Computer Assisted Microfilm (CAM) or Computer Output Microfilm (COM), wordprocessing, optical mark/character reading, bar code applications, cashiering/banking functions, and general on-line system applications offer the potential for improving service delivery and making the commission's operations more efficient.

To undertake this evaluation, the commission needs someone with sufficient technical expertise to (1) evaluate the existing system, (2) identify the office's EDP requirements, (3) develop alternative methods for meeting these requirements, and (4) prepare a feasibility study report (FSR).

Because we believe that improved efficiency and potential cost savings could occur through the implementation of an improved EDP system, we recommend that the commission be directed to evaluate its EDP requirements. We estimate that such a review would cost $30,000. We recommend, therefore, that the commission's budget be augmented on a one-time basis by $30,000 for contractual services. (We note that the Governor's Budget projects a surplus of $66,000 in the Teacher Credentials Fund at the end of 1984–85; therefore, a sufficient amount is available in the fund for this purpose. If our recommendations relating to licensing staff and fingerprinting fees are adopted, the projected surplus at the end of 1984–85 will be $623,000.)

We further recommend adoption of the following supplemental report language:

"The Commission on Teacher Credentialing shall evaluate its management information and electronic data processing (EDP) requirements. This evaluation shall include, but not be limited to (1) an evaluation of its existing data and data processing systems, (2) identification of its information needs and EDP requirements, (3) development of alternative methods for meeting these requirements, and (4) a recommendation on the most appropriate method for meeting these requirements. This evaluation shall be submitted to the legislative fiscal committees by November 1, 1984."

Prudent Reserve Definition Unresolved

We recommend that the Legislature direct the Department of Finance to work with the Commission on Teacher Credentialing in developing a prudent reserve level for the Teachers Credentials Fund which (1) considers the relationship between total resources available and actual expenditures, (2) is based on the commissions average expenditure experience over a multiple-year period and (3) contains an appropriate adjustment mechanism to take into account upward and downward changes to the surplus.

In last year's *Analysis,* we pointed out that Ch 890/81 requires the Department of Finance to define "prudent reserve" as it relates to the Teacher Credentials Fund. Subsequently, the Legislature directed the Department of Finance, in cooperation with the commission, to submit a report on developing a "prudent reserve" for the fund. The department has submitted the required report.

Reporting Methodology. The Department of Finance reviewed the commission's financial data for seven years (from 1976–77 to 1982–83) and found that during this period, expenditures exceeded revenues in four of the seven years examined. The department then recommended that, for purposes of determining what a prudent reserve is, the "worst year" (1979–80) be used. In that year, expenditures exceeded revenues by $655,000 or 21 percent. The report proposes to establish the prudent reserve level at 19 percent of expenditures shown in the Governor's Budget, which is equal to the amount by which expenditures in 1979–80 exceeded the budgeted level.

Critique of the Department's Methodology. Our review of the department's report indicates that it is deficient in the following areas:

- The report examines the relationship of *revenues* to expenditures, rather than *total resources* to expenditures.
- The report bases the recommended reserve level on an atypical year —"financially, CTC's worst year"—instead of using an average of previous years' experiences to reflect the fund's normal financial condition.
- The report fails to address actions that the commission could take administratively if the reserve should fall *below* the recommended reserve level.

In addition, the department recommends in the report that the prudent reserve be pegged to the level of expenditures shown in the Governor's Budget, rather than the level approved by the Legislature (including funds for salary increases).

Table 3 presents data from the past seven years showing total resources available to the fund and the relationship between total resources and expenditures.

Table 3 shows that, on the average, total resources exceeded expenditures by 54 percent. In fact, even in the "worst year" (1980–81, in this case), resources exceeded expenditures by 31 percent.

COMMISSION ON TEACHER CREDENTIALING—Continued

Table 3
CTC Financial Data
1976–77 through 1982–83
(in thousands)

	Total Resources	*Expenditures*	*Difference*	*Percent Different*
1976–77	$4,964	$2,620	$2,344	89.4%
1977–78	5,007	2,850	2,157	75.7
1978–79	4,453	2,792	1,661	59.5
1979–80	4,229	3,177	1,052	33.1
1980–81	4,426	3,376	1,050	31.1
1981–82	5,017	3,404	1,613	47.4
1982–83	6,880	4,860	2,020	41.6

Teacher Credentialing Fund Surplus is Declining. Table 4 shows revenues and expenditures for the commission during the prior, current, and budget years. It indicates that at the end of 1984–85, the surplus in the Teachers Credentials Fund will be $66,000, or 1.1 percent of the projected level of expenditures. This is a decrease of $1.2 million or 95 percent from the current year. The Department of Finance, however, has not used its proposed methodology in the 1984–85 budget which could require the commission to (1) increase revenues by increasing credential fees to the statutory level of $40 or (2) decrease expenditures in light of the dropoff in credential applications.

Given the deficiencies of the methodology used by the Department of Finance and the decline in the commission's year-end reserve, we believe that the issue of a "prudent reserve" for the commission should be reexamined by the department, in consultation with the commission. Specifically, we recommend adoption of the following supplemental report language which would call for this reexamination.

> "The Department of Finance, in cooperation with the Commission on Teacher Credentialing, shall submit to the Joint Legislative Budget Committee and the legislative fiscal committees by November 15, 1984, a report on the methodology for developing a prudent reserve in the Teacher Credentials Fund.
>
> This report shall include, but not be limited to a review of (1) the relationship of resources available to actual expenditures, (2) the average expenditure experience over a multiple-year period, and (3) an appropriate adjustment mechanism to take into account upward and downward changes to the surplus."

Table 4
Teacher Credentials Fund
1982–83 through 1984–85
(in thousands)

	Actual 1982–83	*Estimated 1983–84*	*Projected 1984–85*	*Change Amount*	*Change Percent*
Surplus, July 1	$1,579	$2,020	$1,282	–$738	–36.5%
Revenues:					
Credential fees	$3,838	$2,975	$2,975	—	—
Teacher basic skills proficiency exam	767	934	960	$26	2.8%
Subject matter exam	101	271	271	—	—
Fingerprint fees	410	348	348	—	—
Income from surplus money investments	177	262	175	–87	–33.2
Miscellaneous income	8	—	—	—	—
Totals, Revenue	$5,301	$4,790	$4,729	–$661	–1.3%
Totals, Resources	$6,880	$6,810	$6,011	–$799	–11.7
Expenditures:					
Support of commission	$4,860	$5,527	$5,945	$419	7.6%
Surplus, June 30	$2,020	$1,282	$66	–$1,216	–94.9%
Percent of budgeted expenditures	41.6%	23.2%	1.1%		

Fingerprint Fees Need to be Increased

We recommend adoption of Budget Act language requiring the commission to recover the full cost of fingerprinting charges which would result in increased revenues of $268,000 to the Teacher Credentials Fund.

Applicants for teaching credentials are required to submit two fingerprint cards with their application. One card is processed by the Department of Justice (DOJ); the other one is processed by the FBI. The costs to the commission of having these cards processed in 1984–85 are $15.25 and $12.00, respectively, for a total of $27.75 per applicant. The commission proposes to charge applicants a processing fee of $18.00. As a result, the commission will have to absorb $9.25 in processing costs per applicant.

We can find no analytical basis for providing a subsidy of this kind to credential applicants, particulary given the statutory requirement that the commision set its fees so that revenues are sufficient to cover the costs of its activities. Consequently, we recommend that the Legislature (1) delete existing Budget Bill language authorizing the Department of Finance to augment the commission's budget in an amount necessary to pay the actual amounts charged by Department of Justice for fingerprinting processing and (2) adopt the following Budget Bill language which requires the commission to fully recover the cost of fingerprint processing:

> "The commission shall fully recover fingerprint processing costs through fees charged credential applicants."

Adoption of this language will result in increased revenues of $268,000 to the Teacher Credentials Fund, thereby increasing the projected surplus in 1984–85 from $66,000 to $334,000.