

**DEPARTMENT OF EDUCATION****Item 6100 from the General  
Fund and various funds**

Budget p. E 1

Requested 1986-87 .....	\$13,088,714,000
Estimated 1985-86 .....	11,928,807,000
Actual 1984-85 .....	10,607,492,000
Requested increase \$1,159,907,000 (+9.7 percent)	
Total recommended reduction .....	\$26,909,356
Recommendation pending .....	\$588,884,000

**1986-87 FUNDING BY ITEM AND SOURCE**

Item—Description	Fund	Amount
6100-001-001—Main support	General	\$36,706,000
6100-001-178—School bus driver instruction	Driver Training Penalty Assessment	633,000
6100-001-305—Private postsecondary education	Private Postsecondary Administration	924,000
6100-001-344—School facilities planning	State School Building Lease-Purchase	716,000
6100-001-464—Drug and alcohol abuse prevention	First Offender Program Evaluation	13,000
6100-001-687—Donated food distribution	Donated Food Revolving	13,434,000
6100-001-890—Federal support	Federal Trust	40,205,000
6100-006-001—Special schools	General	39,085,000
6100-007-001—Special schools student transportation	General	529,000
6100-011-001—Library support	General	10,521,000
6100-011-890—Library federal support	Federal Trust	1,366,000
6100-015-001—Instructional materials warehousing and shipping	General	297,000
6100-021-001—Child nutrition administration	General	580,000
6100-101-001—School apportionments	General	7,501,216,000
6100-101-814—Lottery revenues	California State Lottery Education	330,900,000
6100-101-890—Federal block grant	Federal Trust	40,444,000
6100-102-001—Regional Occupational Centers/Programs	General	206,674,000
6100-106-001—County schools	General	91,444,000
6100-107-001—Education Improvement Incentive Program	General	15,000,000
6100-109-001—High school pupil counseling	General	7,528,000
6100-111-001—Home-to-school transportation	General	289,127,000
6100-114-001—Court-ordered desegregation	General	256,681,000
6100-115-001—Voluntary desegregation	General	80,135,000
6100-116-001—School Improvement Program	General	214,531,000
6100-118-001—Vocational education student organizations	General	500,000
6100-119-001—Specialized secondary schools/foster youth services	General	2,893,000
6100-120-001—Pupil dropout prevention	General	13,650,000
6100-121-001—Economic Impact Aid	General	195,002,000
6100-124-001—Gifted and Talented Education	General	20,034,000
6100-126-001—Miller-Unruh Reading Program	General	19,290,000
6100-128-001—Intergenerational education	General	165,000
6100-128-890—Math and science teacher training grant	Federal Trust	5,448,000

**DEPARTMENT OF EDUCATION—Continued**

6100-131-001—Native American Indian Education	General	361,000
6100-136-890—Federal ECIA Chapter I	Federal Trust	323,415,000
6100-141-890—Migrant education	Federal Trust	79,817,000
6100-146-001—Demonstration programs in reading and mathematics	General	4,240,000
6100-151-001—American Indian Education Centers	General	852,000
6100-156-001—Adult education	General	201,630,000
6100-156-890—Federal adult education	Federal Trust	9,288,000
6100-158-001—Adults in correctional facilities	General	1,778,000
6100-161-001—Special education	General	901,268,000
6100-161-890—Federal special education	Federal Trust	94,879,000
6100-162-001—Alternatives to special education	General	315,000
6100-166-001—Vocational education	General	600,000
6100-166-890—Federal vocational education	Federal Trust	63,215,000
6100-167-001—Agricultural vocational education	General	3,000,000
6100-171-178—Driver training	Driver Training Penalty Assessment	(19,500,000)
6100-176-890—Refugee and immigrant programs	Federal Trust	19,581,000
6100-181-001—Educational technology	General	25,896,000
6100-181-140—Environmental education	California Environmental License Plate	604,000
6100-183-001—Curriculum on birth defects	General	677,000
6100-183-464—Drug and alcohol abuse prevention	First Offender Program Evaluation	250,000
6100-186-001—Instructional materials, K-8	General	67,867,000
6100-187-001—Instructional materials, 9-12	General	21,495,000
6100-191-001—Staff development	General	85,186,000
6100-196-001—Child development	General	282,951,000
6100-196-890—Federal child development	Federal Trust	2,140,000
6100-201-001—Child nutrition	General	37,360,000
6100-201-890—Federal child nutrition	Federal Trust	404,366,000
6100-203-890—Temporary Emergency Food Assistance Program	Federal Trust	3,800,000
6100-206-001—Urban Impact Aid	General	75,445,000
6100-207-001—Meade Aid	General	10,332,000
6100-209-001—Commissions on Professional Competence	General	18,000
6100-211-001—Library local assistance	General	11,498,000
6100-211-890—Federal library local assistance	Federal Trust	12,000,000
6100-221-001—Public Library Foundation Program	General	20,000,000
6100-222-001—Youth Suicide Prevention Program	General	312,000
6100-224-001—Alternatives to school construction	General	3,639,000
6100-225-001—School/Law Enforcement Partnership	General	150,000
6100-226-001—Cost-of-living adjustments	General	784,118,000
Reimbursements		55,547,000
—Prior-year balances available	General	16,000
—Loan repayments	General	—2,836,000
—Loan repayment	Special Account for Capital Outlay	—113,000
—School apportionments	State School	23,673,000
—Driver training	State School	19,500,000
—Chartered legislation	General	260,000
—Department administration	Special Deposit	1,083,000

—Local assistance	Special Deposit	1,100,000
—Private postsecondary administration	Student Tuition Recovery	50,000
—Student tuition recovery	Student Tuition Recovery	420,000
Total		\$13,088,714,000
Funding Source:		
General		\$11,540,016,000
Special Account for Capital Outlay		—113,000
California Environmental License Plate		604,000
Driver Training Penalty Assessment		633,000
Private Postsecondary Administration		924,000
State School		43,173,000
State School Building Lease-Purchase		716,000
First Offender Program Evaluation		263,000
Donated Food Revolving		13,434,000
California State Lottery Education		330,900,000
Federal Trust		1,099,964,000
Special Deposit		2,183,000
Student Tuition Recovery		470,000
Reimbursements		55,547,000

## SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis  
page

### School Apportionments

1. **Revenue Limit Equalization. Reduce Item 6100-101-001 by \$21,600,000.** Recommend elimination of funds requested for equalization aid because (1) only small gains in equalization would result, (2) the proposed distribution mechanism would increase disparities among different types of school districts, and (3) better, less costly means of achieving equalization exist. 1126
2. **PERS Funding Reduction.** Recommend that the Department of Finance justify its proposal to reduce funding for K-12 school and community college apportionments by \$39 million, based upon an assumed reduction in PERS contribution rates. 1130
3. **Supplemental Summer School.** Withhold recommendation on \$45,933,000 requested from the General Fund for supplemental summer school programs, pending receipt of data on program participation. 1133
4. **Continuation High Schools.** Withhold recommendation on \$110,400,000 requested from the General Fund for school apportionments, pending submission of expenditure data by the Department of Education. 1134
5. **Juvenile Hall Equalization.** Recommend that the Department of Finance and the Department of Education clarify the consequences of underfunding equalization of juvenile hall revenue limits by \$1.7 million in 1985-86 and \$3.1 million in 1986-87. 1137
6. **Lottery Fund Distribution.** Recommend the enactment of legislation to revise the way enrollment is calculated in determining the distribution of lottery revenues. 1139

**DEPARTMENT OF EDUCATION—Continued****Programs Relating to Classroom Instruction**

7. Sunset Review Process. Recommend the enactment of legislation amending the sunset review process for categorical education programs. 1142
8. School Improvement Program (SIP) Underfunding. Recommend that the Department of Finance explain how it intends to fund a potential \$4.8 million deficiency in funding for SIP. 1146
9. Education Improvement Incentive Program (EIIP). Recommend adoption of Budget Bill language prohibiting the allocation of EIIP funds to schools that conduct programs to prepare students specifically for the CAP test, because such programs are in violation of current law. 1148
10. *Secondary School Textbook Reviews. Reduce Item 6100-001-001 by \$210,000.* Recommend elimination of \$105,000 in General Fund support for secondary textbook "consumer guides," because Department of Education has no plans to develop them. Further recommend that \$105,000 provided for this purpose in current year be reappropriated, and department's General Fund requirements be reduced by an equivalent amount. 1151
11. Demonstration Programs in Reading and Mathematics. Recommend adoption of Budget Bill language restricting funding eligibility for new programs to those which would differ significantly from existing demonstration programs. 1152
12. Demonstration Programs in Reading and Mathematics. Recommend adoption of Budget Bill language limiting state support of any demonstration program beyond the first three years to costs of curriculum development and dissemination. 1153
13. *Curriculum on Birth Defects. Reduce Item 6100-183-001 by \$500,000.* Recommend reduction because funds appropriated in the current year are sufficient to develop and pilot test the model curriculum. 1155
14. Educational Technology Program. Recommend that the Department of Education report on the status of the long-range plan for the program. Further recommend adoption of supplemental report language directing the State Board of Education to adopt (1) a long-range plan, and (2) a preliminary allocation plan for the program in 1987-88. 1158
15. Educational Technology Program. Recommend development of formula to fund grant administration costs. 1159
16. *Institute of Computer Technology (ICT). Augment Item 6100-181-001 by \$67,244.* Recommend (1) adoption of Budget Bill language establishing a variable cost funding formula to determine funding requirements for the ICT and (2) augmentation to fund additional ADA. 1161



**Programs Relating to Teaching and Administration**

17. Staff Development Study Scope. Recommend adoption of supplemental language in Item 6420-001-001 (California Postsecondary Education Commission) specifying the scope of a proposed study of staff development programs. 1163
18. Classroom Teacher Instructional Improvement Program (CTIIP) Inventory. Recommend that the Superintendent of Public Instruction develop a plan and funding proposal for compiling an inventory of the instructional improvement projects funded through CTIIP. Further recommend reappropriation of the undisbursed current-year balance to fund the inventory project. 1171
19. Teacher Education and Computer Centers (TECCs) Sunset Extension. Recommend enactment of urgency legislation extending the sunset date for the TECCs from June 30, 1986 to June 30, 1990. 1173
20. Bilingual Teacher Training Program (BTTP). Recommend that the Superintendent of Public Instruction (1) report on the number of teachers on bilingual waiver who are not served by an approved training program, and (2) develop alternative strategies for serving any teachers identified as not being served. 1174
21. Bilingual Teacher Training Program (BTTP) Cost-Effectiveness. Recommend that the Superintendent of Public Instruction (1) determine the cost-effectiveness of the various state and local bilingual training programs and (2) by November 1, 1987, present findings on what programs appear to be the most cost-effective. 1175
22. *Administrator Training and Evaluation Program (ATEP). Reduce Item 6100-191-001 (a) by \$140,000 and Item 6100-226-001(r) (1) by \$2,600.* Recommend reduction in order to reflect budget-year funding requirements. 1178
23. Pilot Projects. Recommend that the Department of Education report on the status of Pilot Projects for Administrative Personnel. 1179
24. Innovative Local Experiments. Recommend adoption of Budget Bill language reverting the \$250,000 appropriated from the General Fund in the 1985 Budget Act for Innovative Local Experiments to Strengthen Personnel and Management, because statutory authority for use of funds has expired. 1180
25. School Business Personnel Staff Development. Recommend adoption of Budget Bill language specifying that the funds appropriated for this program may be used by the Department of Education for the purposes of contracting with a private financial and accounting firm to conduct the school business personnel training. 1181

**Special Education**

26. Infant Programs. Recommend adoption of supplemental report language directing the Department of Education to report by November 1, 1986, on the cost-effectiveness of different types of infant program service delivery models. 1185
27. *Model Transition Program. Reduce Item 6100-161-001 by* 1186

**DEPARTMENT OF EDUCATION—Continued**

**\$1,000,000.** Recommend deletion of \$1 million requested for a model transition program, because the program requires the enactment of authorizing legislation which specifies its scope.

28. **Funding Model.** Recommend that the Department of Education present at the time of budget hearings, a long-range plan for collecting and analyzing special education cost data. 1187
29. **Adaptive Physical Education (P.E.) Regulations.** Recommend adoption of supplemental report language directing the State Board of Education not to adopt proposed amendments to the regulations governing adaptive P.E. because these amendments would result in major state costs and should be presented to the Legislature in bill form. 1189

**Vocational Education Programs**

30. **Regional Occupational Centers and Programs (ROC/Ps).** *Reduce Item 6100-226-001 by \$220,000.* Recommend reduction for the ROC/P cost-of-living adjustment in order to eliminate a technical budgeting error. 1194
31. **Agricultural Vocational Education Incentive Program.** Recommend adoption of Budget Bill language clarifying the manner in which incentive funds shall be matched by school districts. 1196
32. **Federal Vocational Education Program.** Recommend adoption of supplemental report language directing the Department of Education to revise its definition of a "large" district for the purpose of allocating federal vocational education funds, because some districts are not receiving a proportional share of these funds. 1197

**Compensatory Education Programs**

33. **Miller-Unruh Reading Program.** *Augment Item 6100-126-001 by \$83,566 and reduce Item 6100-001-001 (d) by \$83,566.* Recommend transfer of \$83,566 from the Office of the Superintendent of Public Instruction to the Miller-Unruh Reading Program, because the Superintendent failed to comply with legislative directive to use funds to expand program participation. Further recommend adoption of Budget Bill language requiring Department of Education to (1) reallocate funds whenever program participation declines and (2) select new participants from districts meeting specified criteria. 1203
34. **Refugee and Immigrant Programs.** Withhold recommendation on \$19,912,000 in federal funds, pending receipt of information relating to the actual grant amount. 1205

**School Desegregation**

35. **Funding Requirements.** *Reduce Item 6100-115-001 by \$8,063,000 and Item 6100-226-001 (a) (12) by \$533,000 and increase Item 6100-114-001 by \$8,200,000 and Item 6100-226-001 (a) (11) by \$416,000.* Recommend that \$8.6 1210

million in funding proposed for voluntary desegregation programs be transferred to court-ordered desegregation programs, to accurately reflect funding needs.

#### **Other Specialized Education Programs**

36. Pupil Dropout Prevention and Recovery Programs. 1213  
Withhold recommendation on \$11,400,000 requested from the General Fund for outreach consultants and planning grants, pending receipt of additional information on projected participation rates.
37. *Foster Youth Services. Reduce Item 6100-119-001 (a) by \$813,000 and Item 6100-226-001 by \$16,000 and increase reimbursements by a like amount.* 1216  
Recommend reduction of \$829,000 requested from the General Fund because reimbursements from the Foster Children and Parent Training Fund will be available to fund these programs.
38. *Youth Suicide Prevention. Reduce Item 6100-222-001 by \$185,000.* 1216  
Recommend reduction because funds proposed for program replication are not warranted.
39. *Driver Training. Reduce Item 6100-171-178 by \$750,000.* 1220  
Recommend reduction in the amount budgeted for driver training local assistance, for an equivalent General Fund revenue increase, to more accurately reflect expected enrollment in the program.
40. Federal ECIA Chapter 2. Recommend adoption of 1223  
Budget Bill language specifying that Chapter 2 funds shall be used for the purposes of funding (1) a hazardous substances project and (2) a study on dropouts, which were required by the 1985 Budget Act and the *Supplemental Report of the 1985 Budget Act*.

#### **Ancillary Support for K-12 Education**

41. *Home-to-School Transportation. Reduce Item 6100-111-001 (a) by \$69,000 and increase Item 6100-226-001 (a) (8) by \$69,000.* 1226  
Recommend transfer of \$69,000 from the home-to-school transportation item to the associated COLA item, in order to reflect accurately the distribution of these funds.
42. Transportation Funding Formula. Recommend that the 1126  
Department of Education present during budget hearings, one or more specific alternative funding formulas, at least one of which incorporates a bus-based approach, that satisfy specified criteria for home-to-school transportation apportionments.
43. School Bus Replacement. Recommend adoption of 1228  
Budget Bill language providing for the establishment of a revolving fund to provide loans to local education agencies for the purpose of financing school bus purchases.
44. State School Building Lease-Purchase Program. Recom- 1234  
mend enactment of legislation, contingent upon voter approval of ACA 55, guaranteeing school districts a specified minimum yield from a given tax rate.
45. Emergency Classrooms. Recommend that the State Al- 1235  
location Board and the Department of General Services

**DEPARTMENT OF EDUCATION—Continued**

report during budget hearings on the feasibility of further accelerating the delivery of emergency classrooms in 1986-87.

46. Year-Round Schools/Alternatives to School Construction. 1236  
Recommend adoption of Budget Bill language specifying that funding is for the SB 81 program only. Further recommend adoption of supplemental report language directing the State Allocation Board to notify applicants for school construction funds of the total annual amount of incentive payment they would receive under the SB 81 program.
47. Child Nutrition. 1240  
Withhold recommendation on \$38,-518,000 requested from the General Fund for the State Child Nutrition and Pregnant/Lactating Minor Child programs, pending receipt of additional information on the projected number of meals and nutrition supplements to be served.
48. *Child Nutrition EDP System. Augment Item 6100-201-001 by \$350,000.* 1240  
Recommend (1) a \$350,000 General Fund loan for the redesign and implementation of the program's EDP system and (2) adoption of Budget Bill language specifying that these funds are not to be made available until the Office of Information Technology approves the Feasibility Study Report.

**Non-K-12 Education Programs**

49. Child Development Division Workload Standards. 1242  
Withhold recommendation on \$4,476,000 requested from the General Fund for state operations support, pending completion of legislatively-required workload standards.
50. Child Care Programs—GAIN Impact. 1246  
Withhold recommendation on \$286,409,000 requested from state and federal funds for child care local assistance, pending receipt of information on (1) the methodology used to estimate reimbursements expected from the Department of Social Services for child care services provided to GAIN participants, and (2) the procedure by which the Department of Education will be "held harmless", in accordance with current law, if the proposed reimbursement level of \$31 million is not met.
51. Child Care Accounting Procedures. 1248  
Recommend that the Department of Education report on progress in developing accounting procedures necessary to claim federal reimbursement for GAIN participants.
52. *Child Care Technical Errors. Reduce Item 6100-196-001 (b) (7) by \$250,000 and augment Item 6100-196-001 (b) (1) by \$250,000.* 1248  
Recommend that proposed reimbursement rate increases in the Alternative Payment Program be transferred to general child development programs in order to accurately reflect actual needs for rate increases.
53. *Adult Education Enrollment Growth. Reduce Item 6100-156-001 by \$800,000.* 1251  
Recommend (1) reduction of \$800,000 to more accurately reflect adult population

growth and (2) adoption of Budget Bill language directing the Department of Education to allocate these funds on the basis of need.

#### **State Department of Education**

54. State Operations Funding. Withhold recommendation on \$66,897,000 in state and federal support for the Department of Education's state operations, pending receipt of (1) budget documents that reconcile with the Governor's Budget and (2) the preliminary findings of a legislatively-required management study. 1258
55. California Assessment Program (CAP) Expenditure Plan. Withhold recommendation on \$4,939,000 requested from state and federal funds for CAP, pending receipt from the Department of Education of (1) a revised expenditure plan and (2) a plan for development of the writing skills assessment component. 1267
56. California Assessment Program (CAP) Fiscal Control. Recommend that the Department of Education explain during budget hearings (1) why administrative changes in CAP have failed to improve fiscal control, and (2) how these same changes will improve fiscal control in the budget year. 1270

#### **State Library**

57. Microfilming Requirement. Recommend that the State Library explain why it failed to comply with language in the 1985 Budget Act requiring it to microfilm newspapers in its collection prior to purchasing commercially available newspapers. 1274
58. *California Literacy Campaign (CLC)*. *Reduce Item 6100-211-001 by \$500,000.* Recommend deletion of \$500,000 requested from General Fund to augment CLC, because (1) the State Library has no plan for allocation of these funds and (2) the current funding level is adequate to support existing programs. 1276

#### **OVERVIEW OF K-12 ANALYSIS**

***Fiscal Impact of Recommendations.*** We recommend a net reduction of \$26.9 million in the appropriations proposed for K-12 education. These recommendations are summarized in Table 1.

As the table shows, we recommend \$26.2 million in reductions (net) from the General Fund and a \$750,000 reduction from the Driver Training Penalty Assessment Fund. 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.

We are withholding recommendation on \$588.9 million in proposed appropriations of state and federal funds. Of this amount, we withhold recommendation on \$115.8 million because more accurate data on funding needs will be available by the time of budget hearings. We are withholding recommendation on the remaining \$473.1 million because, at the time this analysis was prepared, the Department of Education and the Department of Finance had not provided us with the information we needed in order to analyze the associated budget requests.

**DEPARTMENT OF EDUCATION—Continued**

**Table 1**  
**Summary of Legislative Analyst's**  
**Recommended Fiscal Changes**  
**1986-87**

<i>Activity</i>	<i>General Fund</i>	<i>Special Funds</i>
Revenue Limit Equalization .....	-\$21,600,000	
Secondary Textbook Reviews .....	-210,000	
Curriculum on Birth Defects .....	-500,000	
Institute of Computer Technology .....	+67,244	
Administrator Training and Evaluation .....	-142,600	
Special Education Transition Program .....	-1,000,000	
Regional Occupational Centers/Programs .....	-220,000	
Foster Youth Services .....	-829,000	
Youth Suicide Prevention .....	-185,000	
Driver Training .....		-\$750,000
Child Nutrition Administration .....	+350,000	
Adult Education .....	-800,000	
California Literacy Campaign .....	-500,000	
CSU/SDE Joint Proposal <sup>a</sup> .....	-590,000	
Totals .....	-\$26,159,356	-\$750,000

<sup>a</sup> Discussed in analysis of California State University (Item 6610).

**Non-Compliance With Legislative Intent**

In preparing this analysis, we found numerous instances in which the State Department of Education (SDE) has failed to comply with the intent of the Legislature. For example:

- The Legislature, in the 1985 Budget Act and the *Supplemental Report of the 1985 Budget Act*, directed the SDE to allocate federal ECIA Chapter 2 block grant funds for (1) a project to assess the hazards of toxic substances in schools and disseminate this information to school districts and (2) an in-depth study of the number and characteristics of high school dropouts. The department disregarded these directives and allocated no Chapter 2 funds for these purposes.
- The Legislature, in the *Supplemental Report of the 1985 Budget Act*, directed SDE to use any funds freed up when school districts dropped out of the Miller-Unruh Reading Program to bring new districts into the program. The department disregarded this directive and instead continues to use these funds for additional, unauthorized increases in subsidies to districts already in the program.
- The Legislature, in SB 813 (Ch 498/83) and SB 1889 (Ch 1697/84), required the SDE to develop a 10th grade CAP test and revise the 12th grade CAP test. The department has disregarded this requirement and allocates no funds for these purposes in its proposed funding plan. The department does propose, however, to expand funding for CAP in order to address other priorities of the Superintendent of Public Instruction.
- The Legislature appropriated \$105,000 in the 1985 Budget Act and adopted supplemental language (1) specifying that these funds were to be used by the SDE to prepare factual reviews of secondary school

textbooks and distribute these reviews to school districts and (2) directing the Legislative Analyst to report in the *Analysis of the 1986-87 Budget Bill* how the department expended these funds. In conducting our review, we discovered that the department was developing plans to use most of these funds to initiate a new staff development program for training teachers how to review textbooks, even though it has no specific legislative authorization to conduct such a program.

In the analysis which follows, we discuss each of these matters in greater detail.

Our analysis of K-12 education is organized as follows:

### OUTLINE OF THE K-12 EDUCATION ANALYSIS

	Item Number	Analysis Page
GENERAL PROGRAM STATEMENT .....		1096
OVERVIEW OF BUDGET REQUEST .....		1097
1. K-12 Revenues .....		1097
2. Significant Program Changes .....		1098
3. Ten-Year Funding History .....		1101
MAJOR ISSUES AND POLICY OPTIONS .....		1104
1. Alleviating Teacher Shortages .....		1104
2. Reducing Class Size .....		1110
3. Addressing the Dropout Problem .....		1116
4. Financing School Construction .....		1120
ANALYSIS AND RECOMMENDATIONS		
I. Direct Support for K-12 Education		
A. General Education Programs		
1. School Apportionments .....	6100-101-001	1124
2. Urban Impact Aid/Meade Aid .....	6100-206-001 and 6100-207-001	1136
3. Small School District Aid .....	6100-101-001 (c)	1137
4. County Offices of Education .....	6100-106-001	1137
5. Lottery Revenues .....	6100-101-814	1138
B. Specialized Education Programs		
1. Programs Relating to Classroom Instruction		
a. School Improvement Program .....	6100-116-001	1145
b. Education Improvement Incentive Program .....	6100-107-001	1147
c. Instructional Materials .....	6100-015-001, 6100-186-001, and 6100-187-001	1149
d. Demonstration Programs in Reading and Mathematics .....	6100-146-001	1152
e. High School Pupil Counseling .....	6100-109-001	1154
f. Environmental Education .....	6100-181-140	1154
g. Intergenerational Education .....	6100-128-001	1154
h. Curriculum on Birth Defects .....	6100-183-001	1155
i. Educational Technology Program .....	6100-181-001	1156
j. Institute of Computer Technology .....	6100-181-001	1160
2. Programs Relating to Teaching and Administration		
a. Mentor Teacher Program .....	6100-191-001 (b)	1170
b. Classroom Teacher Instructional Improvement Program .....	6100-191-001 (d)	1171
c. Teacher Education and Computer Centers .....	6100-191-001 (f)	1172
d. School Personnel Staff Development .....	6100-191-001 (c)	1173
e. Bilingual Teacher Training Program .....	6100-191-001 (e)	1174
f. California International Studies Project .....	6100-191-001 (i)	1176
g. Regional Science Resource Centers .....	—	1177
h. Administrator Training and Evaluation Program .....	6100-191-001 (a)	1177
i. School Business Personnel Staff Development .....	6100-191-001 (g)	1180
j. Math and Science Teacher Training Grant .....	6100-128-890	1182

**DEPARTMENT OF EDUCATION—Continued**

3. Special Education		
a. Master Plan for Special Education .....	6100-161-001	1183
b. Federal Public Law 94-142 .....	6100-161-890	1190
c. Alternatives to Special Education .....	6100-162-001	1191
d. State Special Schools .....	6100-006-001	1192
e. Special Schools Transportation .....	6100-007-001	1193
4. Vocational Education Programs		
a. Regional Occupational Centers and Programs .....	6100-102-001	1194
b. Vocational Education Student Organizations .....	6100-118-001	1194
c. Peninsula Academies Model Program .....	6100-166-001	1195
d. Agricultural Vocational Education Incentive Program .....	6100-167-001	1195
e. School-Based Programs .....	6100-166-890	1197
f. Federal Job Training Partnership Act .....	6100-166-001	1198
5. Compensatory Education Programs		
a. ECIA Chapter 1 .....	6100-136-890 and 6100-141-890	1198
b. Economic Impact Aid .....	6100-121-001	1200
c. Miller-Unruh Reading Program .....	6100-126-001	1203
d. Refugee and Immigrant Programs .....	6100-176-890	1205
e. Indian Education .....	6100-131-001 and 6100-151-001	1207
6. School Desegregation .....	6100-114-001 and 6100-115-001	1209
7. Other Specialized Education Programs		
a. Pupil Dropout Prevention and Recovery .....	6100-120-001	1212
b. Gifted and Talented Education .....	6100-124-001	1214
c. Specialized Secondary Schools .....	6100-119-001 (b)	1215
d. Foster Youth Services .....	6100-119-001 (a)	1215
e. Youth Suicide Prevention Program .....	6100-222-001	1216
f. Drug and Alcohol Abuse Prevention Program .....	6100-001-464, 6100-183-001, and 6100-183-464	1218
g. School/Law Enforcement Partnership Program .....	6100-225-001	1218
h. Commissions on Professional Competence .....	6100-209-001	1219
i. Driver Training .....	6100-171-178	1219
j. Federal Block Grant (ECIA Chapter 2) .....	6100-001-890 and 6100-101-890	1221
II. Ancillary Support for K-12 Education		
A. Transportation		
1. Home-to-School Transportation .....	6100-111-001	1225
2. School Bus Driver Instructor Training Program .....	6100-001-178	1230
B. School Facilities Programs		
1. School Facilities Aid .....	—	1230
2. School Facilities Planning .....	6100-001-344	1236
3. Alternatives to School Construction .....	6100-224-001	1236
C. Child Nutrition		
1. Nutrition Education and Training Projects .....	6100-021-001	1239
2. State Child Nutrition Program .....	6100-201-001	1240
3. Federal Child Nutrition Program .....	6100-201-890	1240



## Item 6100

## K-12 EDUCATION / 1095

## III. Non-K-12 Education Programs

## A. Child Development

1. State Preschool Program .....	6100-196-001	1243
2. Child Care Programs .....	6100-196-001 and 6100-196-890	1244

B. Adult Education .....	6100-156-001, 6100-156-890, and 6100-158-001	1250
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C. Office of Food Distribution .....	6100-001-687 and 6100-203-890	1253
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IV. State Department of Education .....	6100-001-001, 6100-001-305, and 6100-001-890	1256
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## V. State Library

A. Overview .....	—	1271
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B. State Library Support .....	6100-011-001 and 6100-011-890	1273
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C. Support to Local Library Districts.....	6100-211-001, 6100-211-890, and 6100-221-001	1275
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Table 2 displays total funding proposed in 1986-87 for each of the K-12 education categories shown in the outline. (As used in this analysis, the term "K-12 education" includes all programs shown in Item 6100, contributions to the State Teachers' Retirement System, and funding for school facilities.) The table shows that the Governor's Budget provides \$18.9 billion in total funding for K-12 education—\$12.1 billion from the state General Fund, \$448 million from state special funds, \$5.0 billion from local revenues, and \$1.3 billion from federal funds.

The table also shows that the \$18.9 billion in total funding proposed for K-12 education in 1986-87 is distributed as follows:

- **Direct Support for K-12 Education**—\$16.8 billion (89 percent of the total). General education programs (including school apportionments) account for \$13.6 billion of this amount, while specialized education programs (so-called "categorical" programs) account for the remaining \$3.2 billion.
- **Ancillary Support for K-12 Education**—\$1.4 billion (7 percent of the total). Programs in this category include transportation, school facilities, and child nutrition.
- **Non-K-12 Education Programs**—\$535 million (3 percent of the total). Programs in this category include child development, adult education, and the Office of Food Distribution within the State Department of Education.
- **State Department of Education** state operations (excluding the state special schools, the Office of Food Distribution, and the State Library)—\$80 million (less than 1 percent of the total).
- **State Library** operations and aid to local library districts—\$56 million (less than 1 percent of the total).

## DEPARTMENT OF EDUCATION—Continued

**Table 2**  
**Total Revenues for K-12 Education**  
**By Type of Expenditure**  
**1986-87**

	<i>State</i>		<i>Local</i>	<i>Federal</i>	<i>Total</i>
	<i>General Fund</i>	<i>Special Funds</i>			
I. Direct Support for K-12 Education					
A. General Education Programs					
1. School apportionments (state & local) .....	\$8,193.5	\$24.8	\$3,115.6	—	\$11,333.9
2. Local miscellaneous revenues .....	—	—	1,253.5 <sup>a</sup>	—	1,253.5
3. Contributions to STRF & PERS ..	501.5	—	—	—	501.5
4. Other General Education Programs .....	117.9	330.8 <sup>a</sup>	—	\$52.0	500.6
Subtotal, General Education Programs .....	\$8,812.9	\$355.6	\$4,369.1	\$52.0	\$13,589.6
B. Specialized Education Programs					
1. Programs Relating to Classroom Instruction .....	\$374.5	\$0.6	—	\$0.6	\$375.7
2. Programs Relating to Teaching and Administration .....	85.6	—	—	6.4	92.0
3. Special Education .....	1,025.9	—	\$255.0	94.9	1,375.7
4. Vocational Education Programs ..	222.8	—	—	63.2	286.0
5. Compensatory Education Programs .....	220.5	—	—	422.8	643.4
6. School Desegregation .....	352.0	—	—	—	352.0
7. Other Specialized Education Programs .....	38.5	19.8	—	38.9	97.1
Subtotal, Specialized Education Programs .....	\$2,319.8	\$20.4	\$255.0	\$626.8	\$3,221.9
Subtotal, Direct Support for K-12 Education .....	\$11,132.7	\$375.9	\$4,624.1	\$678.8	\$16,811.5
II. Ancillary Support for K-12 Education					
A. Transportation .....	\$294.8	—	—	\$100.0	\$394.8
B. School Facilities Programs .....	98.4	\$54.4	\$389.7	0.3	542.7
C. Child Nutrition .....	38.5	—	—	404.4	442.9
Subtotal, Ancillary Support for K-12 Education .....	\$431.8	\$54.4	\$389.7	\$504.6	\$1,380.5
III. Non-K-12 Education Programs					
A. Child Development .....	\$288.6	—	—	\$2.1	\$290.7
B. Adult Education .....	216.3	—	—	9.3	225.6
C. Office of Food Distribution .....	—	\$13.4	—	5.0	18.4
D. Other .....	—	0.4	—	—	0.4
Subtotal, Non-K-12 Education Programs .....	\$504.9	\$13.9	—	\$16.4	\$535.2
IV. State Department of Education <sup>b</sup> .....	\$37.6	\$3.4	—	\$39.0	\$80.1
V. State Library .....	\$42.2	—	—	\$13.4	\$55.6
<b>TOTAL REVENUES FOR K-12 EDUCATION .....</b>	<b>\$12,149.3</b>	<b>\$447.6</b>	<b>\$5,013.8</b>	<b>\$1,252.2</b>	<b>\$18,862.8</b>

<sup>a</sup> Includes Lottery revenues.<sup>b</sup> Excludes state special schools, Office of Food Distribution, and State Library.

### GENERAL PROGRAM STATEMENT

In 1986-87, approximately 4.6 million students will attend public elementary and secondary schools in 1,028 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 being absent from school.

Table 3 shows K-12, adult, county, and ROC/P attendance figures for the prior, current, and budget years. As the table indicates, the attendance level for 1986-87 is 2.2 percent above the 1985-86 level.

**Table 3**  
**K-12 Education**  
**Annual Average Daily Attendance (ADA) in**  
**California Public Schools**  
**1984-85 through 1986-87**

	<i>Actual</i> 1984-85	<i>Est.</i> 1985-86	<i>Prop.</i> 1986-87	<i>Change</i> <i>from 1985-86</i>	
				<i>Amount</i>	<i>Percent</i>
Elementary .....	2,793,698	2,875,203	2,973,703	98,500	3.4%
High School .....	1,286,070	1,311,858	1,306,339	-5,519	-0.4
Adult Education .....	167,787	172,000	176,300	4,300	2.5
County .....	16,581	18,200	20,200	2,000	11.0
Regional Occupational Centers and Programs	91,714	95,000	95,000	—	—
Totals .....	4,355,850	4,472,261	4,571,542	99,281	2.2%

Source: Department of Finance, K-12 projections, November 4, 1985.

Also includes estimates of ADA for supplemental summer school which is funded on an hourly basis.

The state provides assistance to local education agencies through approximately 60 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 1,028 school districts. The department has 2,712.2 authorized positions in the current year to staff departmental operations, the state special schools, and the State Library.

### OVERVIEW OF THE BUDGET REQUEST

#### 1. K-12 Revenues

The budget proposes that \$18.9 billion be made available to support California's K-12 schools in 1986-87. This is an increase of \$729.4 million, or 4 percent, over the amount provided in the current year. Table 4 displays total revenues for K-12 education in the prior, current, and budget years.

The budget proposes that the General Fund provide \$12.1 billion in support for K-12 education, and that other state funds provide \$62 million. (These amounts do not include funds for capital outlay.) Thus, the total amount proposed *from state sources* for K-12 education in 1986-87 is \$12.1 billion—an increase of \$1.1 billion, or 9.9%, over the current-year level.

Local property tax levies will provide \$3.4 billion for K-12 education in 1986-87—an increase of \$155.1 million, or 4.8 percent, over the current-year level. Thus, state and local revenue sources, combined, will provide a total of \$15.5 billion for the state's K-12 public schools in 1986-87—an increase of \$1.2 billion, or 8.8 percent, over state and local revenues in 1986-87.

## DEPARTMENT OF EDUCATION—Continued

Table 4  
Total Revenues for K-12 Education  
1984-85 through 1986-87  
(dollars in millions)

	Actual 1984-85	Est. 1985-86	Prop. 1986-87	Change from 1985-86	
				Amount	Percent
State:					
General Fund <sup>a</sup> .....	\$9,941.8	\$10,965.2	\$12,054.5	\$1,089.3	9.9%
Special funds <sup>b</sup> .....	64.6	59.7	62.3	2.6	4.3
Subtotals, State .....	\$10,006.4	\$11,024.9	\$12,116.8	\$1,091.9	9.9%
Local:					
Property tax levies <sup>c</sup> .....	\$2,867.5	\$3,215.4	\$3,370.6	\$155.1	4.8%
Subtotals, State and Local .....	\$12,873.9	\$14,240.3	\$15,487.3	\$1,247.0	8.8%
Other:					
Federal <sup>d</sup> .....	\$1,045.0	\$1,250.2	\$1,252.2	\$2.0	0.2%
State capital outlay <sup>e</sup> .....	295.7	855.3	149.2	-706.1	-82.6
Local debt service .....	425.0	406.9	389.7	-17.3	-4.2
Local miscellaneous .....	1,034.7	1,138.9	1,253.5	114.7	10.1
Lottery Fund <sup>f</sup> .....	—	241.8	330.9	89.1	36.8
Subtotals, Other .....	\$2,800.3	\$3,893.0	\$3,375.5	-517.6	-13.3%
Totals .....	\$15,674.2	\$18,133.4	\$18,862.8	\$729.4	4.0%

<sup>a</sup> Includes contributions to the State Teachers' Retirement Fund.

<sup>b</sup> Includes the State School Fund, Donated Food Revolving Fund, and others.

<sup>c</sup> Includes state property tax subventions.

<sup>d</sup> Includes Federal Impact Aid (PL 81-874) which is not shown in the budget.

<sup>e</sup> Includes Proposition 1 bond funds, Proposition 26 bond funds, and tidelands revenues for capital outlay.

<sup>f</sup> Governor's Budget estimates.

Other revenue sources are expected to contribute an additional \$3.4 billion to support K-12 programs in the budget year. This amount consists of (1) \$1,252 million in federal funds (2) \$149.2 million in state funds for capital outlay (3) \$390 million in local property taxes used to retire indebtedness approved by voters prior to Proposition 13 of 1978, (4) \$1,254 million in miscellaneous revenues from the sale and rental of district property, interest earned on cash deposits, cafeteria income, and other local revenue sources, and (5) \$331 million that the Governor's Budget estimates will be available from the lottery.

## 2. Significant Program Changes in 1986-87

Table 5 shows the components of the \$729.4 million net increase in total support proposed for California's K-12 public schools in 1986-87.

Table 5  
K-12 Education  
Proposed 1986-87 Budget Changes  
(dollars in millions)

	Funding Sources				Totals
	General	Special <sup>a</sup>	Local <sup>b</sup>	Federal	
1985-86 Expenditures (Revised) .....	\$11,059.1	\$1,062.9	\$4,761.2	\$1,250.2	\$18,133.4
1. Changes Needed to Maintain Existing Base:					
ADA increase (2.2 percent) .....	221.6	—	—	—	221.6
Statutory enrollment growth:					
Adult education (2.5 percent) .....	4.9	—	—	—	4.9

## Item 6100

## K-12 EDUCATION / 1099

Statutory inflation adjustments:					
K-12 apportionments (5.78 percent)	619.2	—	—	—	619.2
Other programs with statutory COLAs	129.3	—	—	—	129.3
Increase in local property taxes	-155.1	—	137.9	—	-17.2
Incentives for longer school day (SB 813)	107.0	—	—	—	107.0
Contributions to the State Teachers' Retirement Fund	51.8	—	—	—	51.8
School desegregation (excluding COLA)	50.0	—	—	—	50.0
Dropout prevention & recovery (Ch 1431/85)	10.9	—	—	—	10.9
Juvenile hall equalization (Ch 1597/85)	3.6	—	—	—	3.6
Child care funding shift to reimbursements	-31.0	—	—	—	-31.0
State lottery revenues	—	89.1	—	—	89.1
Local miscellaneous revenues	—	—	114.7	—	114.7
One-time appropriation—OCSLA <sup>c</sup>	—	—	—	-11.5	-11.5
School facilities aid	0.9	-557.0	—	-85.7	-641.8
Other baseline changes	8.1	2.6	—	-1.0	9.7
Subtotal, Changes to Existing Base	(\$1,021.2)	(-\$465.3)	(\$252.6)	(-\$98.2)	(\$710.3)
2. Program Change Proposals:					
Discretionary programs inflation	35.6	—	—	—	35.6
Special education proposals <sup>d</sup>	50.0	—	—	—	50.0
Revenue limit equalization	21.6	—	—	—	21.6
Mentor Teacher program expansion	1.0	—	—	—	1.0
Eliminate STRS unused sick leave funding	-17.5	—	—	—	-17.5
Reduce funding for other mandates	-18.5	—	—	—	-18.5
Reduce funding for "basic aid" districts	-5.0	—	—	—	-5.0
Reduce funding for juvenile hall equalization	-3.1	—	—	—	-3.1
Reduce adult enrollment growth	-1.0	—	—	—	-1.0
School facilities (tidelands oil)	—	-150.0	—	—	-150.0
Schoolbus replacement	—	—	—	100.0	100.0
State Library:					
Automation	1.4	—	—	—	1.4
Library local assistance	2.2	—	—	—	2.2
Other program change proposals	2.2	—	—	0.2	2.4
Subtotal, Program Change Proposals	(\$68.9)	(-\$150.0)	—	(\$100.2)	(\$19.1)
1986-87 Expenditures (Proposed)	\$12,149.2	\$447.6	\$5,013.8	\$1,252.2	\$18,862.8
Changes from 1985-86:					
Amount	\$1,090.1	-\$615.3	\$252.6	\$2.0	\$729.4
Percent	9.9%	-57.9%	5.3%	0.2%	4.0%

<sup>a</sup> Includes state lottery revenues.<sup>b</sup> Includes local miscellaneous revenues.<sup>c</sup> AB 1024 (Ch 1440/85) appropriated \$11.5 million from federal Outer Continental Shelf Lands Act (OCSLA) settlement funds to SDE as follows: \$7.5 million for increased instructional materials funding, \$3.0 million for school bus replacement, and \$1.0 million for child care expansion.<sup>d</sup> Governor's Budget proposes a total of \$60 million for expansion of special education in 1986-87. The budget, however, proposes that \$5 million of this amount be "advanced" to 1985-86, and used to fund additional growth. Thus, the budget proposal consists of (1) \$5 million to fund growth in 1985-86, (b) \$5 million to continue funding this "baseline" amount in 1986-87, and (c) \$50 million for expansion beyond 1985-86 baseline requirements.

The most significant changes include:

• **Funding for the Growth in Average Daily Attendance.** Average daily attendance (ADA) statewide is expected to increase by 94,981 in

**DEPARTMENT OF EDUCATION—Continued**

1986-87. This increase reflects an increase of 98,500 ADA in grades K through 8, a decrease of 5,519 ADA in the state's high schools, and an increase of 2,000 ADA in County Offices of Education. This increase will raise General Fund expenditures by \$221.6 million.

- **Funding for Cost-of-Living Adjustments (Item 6100-226-001).** The budget requests \$784 million to provide full funding for statutory COLAs (including increases of 5.78 percent for school apportionments and special education) and a 2.0 percent inflation adjustment for all other programs. This amount includes (1) \$619.2 million for general education apportionments to K-12 districts and county offices (revenue limits), (2) \$129.3 million for all other programs with statutory COLAs, and (3) \$35.6 million for programs with no COLA specified in statute.

- **Funding for Longer School Day Incentive—SB 813.** The budget requests \$107 million to fund the final year of a three-year program, created by SB 813, which provides school districts with incentives to increase the amount of instructional time offered.

- **Increase in Local Property Tax Revenues.** The budget estimates a net increase in property tax revenues excluding levies for repayment of voter-approved indebtedness of \$155.1 million. This increase, however, does not result in additional revenues to school districts. Instead, it reduces the General Fund cost of funding school apportionments on a dollar-for-dollar basis. Because debt levies are expected to decrease by \$17.2 million, total local property tax revenues show a net increase of only \$137.9 million.

- **Increases for Special Education.** The budget requests a net increase of \$50 million to expand existing or establish new special education programs. This amount includes (1) \$35 million for program growth (of which \$5 million is proposed to be provided in 1985-86), (2) \$15.9 million for instructional aides, (3) \$5 million for infant programs, (4) \$2 million for the purchase of specialized equipment, (5) \$1.1 million for county office participation in the longer school day and year programs of SB 813, and (6) \$1 million for a model transition program.

- **Increase for School Desegregation Funding.** The budget requests a total increase of \$50 million (excluding COLA) to reimburse school districts for the costs of court-ordered and voluntary desegregation pursuant to AB 38 (Ch 180/85).

- **Funding for School Buses.** The budget requests \$100 million from the Petroleum Violation Escrow Account for the purchase of school buses.

- **Increases for Revenue Limit Equalization.** The budget requests \$21.6 million in additional equalization aid for school districts.

- **Reduction in School Facilities Aid.** The budget proposes a net reduction of \$806 million in funding for school facilities aid. This amount reflects (1) the elimination of \$450 million in remaining bond funds from Proposition 26 of 1984, which we estimate will be fully expended in the current year, (2) the Governor's proposed deferral until 1989-90 of a \$150 million statutory appropriation of tidelands oil revenues, and (3) the elimination of \$85.7 million in one-time federal funds from the Outer Continental Shelf Lands Act appropriated (but not yet received) in the current year.

- **Reduction in Funding for Mandates.** The budget proposes a \$36 million reduction in funding to reimburse school districts for the costs of various state-mandated local programs (including the costs of unused sick leave credited to members of the State Teachers' Retirement System), based on the assumption that reductions in districts' contributions to the Public Employees' Retirement System will save them at least \$48 million.

• **Child Care Funding Shift.** The budget assumes that the Department of Education will receive \$31 million in reimbursements from the federal government (via the Department of Social Services) to partially offset the costs of providing child care services to recipients of Aid to Families with Dependent Children (AFDC). Based on this assumption, the budget proposes to reduce General Fund support for child care programs by an equivalent amount.

• **Increase in Lottery Revenues.** The Governor's Budget estimates an increase in state lottery revenues for K-12 schools of \$89.1 million.

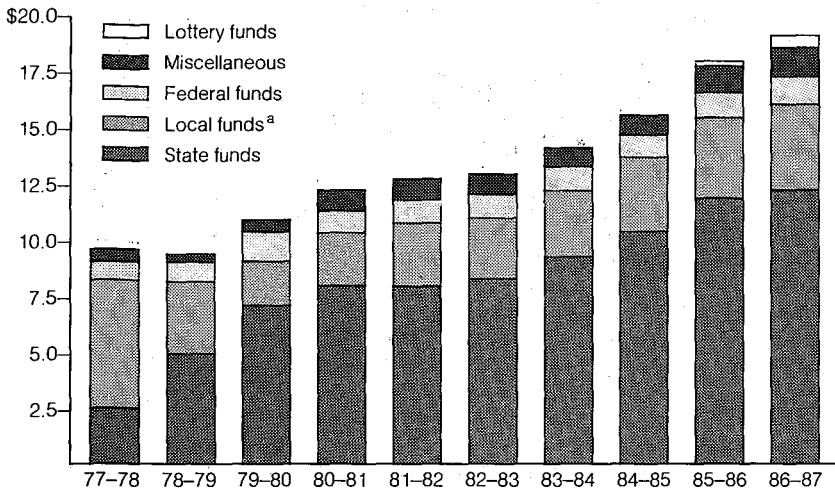
• **Other Changes.** Other changes affecting the overall level of support for K-12 education include (1) an increase of \$51.8 million in General Fund contributions to the State Teachers' Retirement Fund (2) an increase of \$10.9 million to fully fund the dropout prevention and recovery programs authorized by Ch 1431/85, and (3) a reduction of \$4.1 million below the amounts statutorily required for equalization of juvenile hall programs' revenue limits and adult education enrollment growth.

### 3. Ten-Year Funding History

#### a. Total K-12 Revenues

Table 6 and Chart 1 display total funding for K-12 education, by source, for the 10 years 1977-78 to 1986-87. The principal funding sources identified in the table are as follows:

**Chart 2**  
**K-12 Education Revenues**  
**By Funding Source (in billions)**  
**1977-78 through 1986-87**



<sup>a</sup> Includes state property tax subventions.

## DEPARTMENT OF EDUCATION—Continued

**Table 6**  
**K-12 Total Revenues**  
**1977-78 through 1986-87**  
**(dollars in millions)**

Year	Local Property Tax Levies <sup>a</sup>	State Property Tax Subventions	State Aid <sup>b</sup>	Federal Aid	Miscel- laneous <sup>c</sup>	Total Funding	ADA	Total Funding		1977-78 Dollars <sup>d</sup>	
								Per ADA	Percent Change	Per ADA	Percent Change
1977-78 .....	\$4,728.6	\$516.0	\$2,894.9	\$891.5	\$485.6	\$9,516.6	4,652,486	\$2,045	11.5%	\$2,045	—
1978-79 .....	2,337.1	241.5	5,333.4	962.3	551.3	9,425.6	4,271,181	2,207	7.9	2,037	-0.4%
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	2,197	7.8
1980-81 .....	2,166.2	243.5	7,866.4	1,154.5	910.6	12,341.2	4,214,089	2,929	12.2	2,250	2.4
1981-82 .....	2,674.1	259.5	7,837.3	1,000.7	843.8	12,615.4	4,200,678	3,003	2.5	2,141	-4.9
1982-83 .....	2,675.3	266.5	8,100.7	967.6	854.0	12,864.1	4,230,065	3,041	1.3	2,032	-5.1
1983-84 .....	2,869.5	114.2	9,187.8	1,032.7	940.0	14,144.2	4,259,631	3,321	9.2	2,089	2.8
1984-85 (estimated) .....	3,191.8	100.7	10,302.0	1,045.0	1,034.7	15,674.2	4,355,850	3,598	8.4	2,134	2.2
1985-86 (estimated) .....	3,521.7	100.7	11,880.2	1,250.2	1,380.7	18,133.4	4,472,261	4,055	12.7	2,276	6.7
1986-87 (budgeted) .....	3,659.6	100.7	12,265.9	1,252.2 <sup>e</sup>	1,584.4	18,862.8	4,571,542	4,126	1.8	2,191	-3.7
<i>Cumulative Change</i>											
Amount .....	-\$1,069.0	-\$415.3	\$9,371.0	\$360.7	\$1,098.8	\$9,346.2	-80,944	\$2,081	—	\$146	—
Percent .....	-22.6%	-80.5%	323.7%	40.5%	226.3%	98.2%	-1.7%	101.7%	—	7.1%	—

Source: *Financial Transactions of School Districts*, Governor's Budget (various years).

<sup>a</sup> Includes local debt.

<sup>b</sup> Includes all General and special fund monies in Item 6100, contributions to the State Teachers' Retirement Fund (STRF), and state capital outlay.

<sup>c</sup> Includes lottery revenues, combined state/federal grants, county income, and other miscellaneous revenues.

<sup>d</sup> Adjusted by the GNP deflator for state and local government purchases.

<sup>e</sup> Includes funds from the Petroleum Violation Escrow Account for the replacement of school buses.



- **Local Property Tax Levies**—revenues raised by the tax on real property.
- **State Property Tax Subventions**—funds provided by the state to school districts in order to replace property tax revenues foregone due to tax exemptions granted by the state, such as the homeowners exemption and (in years prior to 1983-84) the business inventory exemption.
- **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**—lottery revenues (shown separately in Chart 2), combined state/federal grants, income from the sale of property and supplies, cafeteria revenues, interest income, and other revenues.

Table 6 shows total funding for California's K-12 public schools growing from \$9.5 billion in 1977-78 to \$18.9 billion in 1986-87—an increase of \$9.3 billion, or 98 percent over the 10-year period. Of the five revenue sources listed above, state aid from the General Fund and state special funds has shown the greatest increase since 1977-78 (324 percent), while the amount of support derived 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 for K-12 education.)

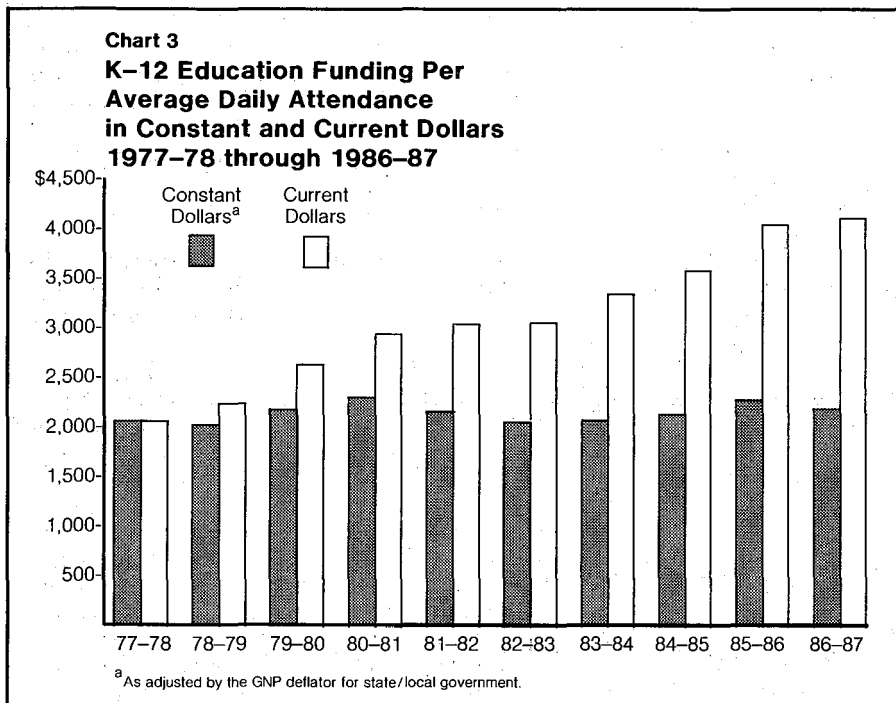
Average daily attendance (ADA) over the 10-year period fell 1.7 percent, from 4,652,486 to 4,571,542. Two factors explain this decline. First, the number of 5-17 year olds residing in the state declined during this period. Second, the number of summer school ADA dropped sharply between 1977-78 and 1978-79, 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 6 and Chart 2 display per-pupil funding levels during the 10-year period, in both current and constant dollars (that is, dollars that have been adjusted to reflect the effects of inflation on purchasing power). The table and chart show per-pupil funding in current dollars growing by 102 percent since 1977-78 (\$2,045 to \$4,126).

If we adjust these expenditures for inflation, however, a different picture emerges. For 1986-87, the proposed per-pupil expenditure level, as measured in constant dollars, is \$2,191, or 7.1 percent, above the 1977-78 amount. Putting it another way, assuming enactment of the budget, the purchasing power of K-12 funding per pupil in 1986-87 will be 7.1 percent greater than it was in 1977-78. Compared to 1985-86, however, funding on a constant dollar basis has declined—from \$2,276 to \$2,191 per pupil—a reduction of \$85, or 3.7 percent.

## DEPARTMENT OF EDUCATION—Continued



## MAJOR ISSUES AND POLICY OPTIONS

In recent months, there has been much discussion about four major issues facing K-12 education in California: (1) an impending shortage of qualified teachers, (2) large average class sizes in California schools, (3) the state's growing dropout problem, and (4) inadequate local revenue to finance the construction of school facilities. To date, no clear consensus has emerged regarding what action, if any, the Legislature should take to address these issues.

Because this debate appears certain to continue, we begin this analysis with a discussion of these four major policy issues.

### 1. Alleviating Teacher Shortages

In the next five to ten years, the state will experience a significant shortage of qualified teachers. The most recent estimate of the impending shortage comes from the report, *Who Will Teach Our Children?*, published by the California Commission On the Teaching Profession in November 1985. Based on a study conducted for it by staff at the Policy Analysis for California Education (PACE) center, the commission estimates that there will be a shortage of between 21,000 and 35,000 teachers during the next five years.

In this section, we will (1) examine what is known about the extent of the potential shortage, paying particular attention to the PACE estimates

and (2) discuss alternative policies for addressing the problem which the Legislature may wish to consider.

### **PACE Study of Teacher Shortages**

The PACE paper, entitled, "Teacher Supply and Demand in California: Is the Reserve Pool a Realistic Source of Supply?," attempts to project the demand for and supply of teachers over the next five years. In doing so, the report assumes no changes in (1) current class size ratios and (2) existing law (specifically, the report assumes that the state will continue to grant emergency credentials in shortage disciplines). Table 7 summarizes the projections made in the report.

**Table 7**  
**PACE Report on Teacher Supply and Demand**  
**Projections**

	<i>Low Estimate of Shortage</i>		<i>High Estimate of Shortage</i>	
	<i>Five Year</i>	<i>Annual Average</i>	<i>Five Year</i>	<i>Annual Average</i>
Demand for Teachers .....	77,300	15,460	85,000	17,000
Supply of Teachers .....	56,000	11,200	50,300	10,060
Teacher Shortage .....	21,300	4,260	34,700	6,940

**Demand Projections.** Assuming no change in existing class size ratios, the PACE report estimates that over the next five years, there will be a demand for 77,300 to 85,000 new teachers in California. These estimates are based on (1) projected attrition of the current teaching force (due both to normal attrition and retirement) and (2) enrollment growth in the student population.

**Supply Projections.** Over the next five years, the PACE report projects that there will be a supply of 50,300 to 56,000 new teachers. The low estimate is based on estimates of the number of (1) newly-credentialed teachers graduating from California's credential programs, (2) teachers credentialed in other states moving to California, (3) teachers returning to the profession after a period away from teaching—the so-called "reserve pool," and (4) college graduates who pass the California Basic Educational Skills Test (CBEST) and obtain an emergency teaching credential. The high estimate is based on the average entry and re-entry rates into the profession during the last seven years.

**Shortage Projections.** The estimated shortage is simply the projected demand for teachers less the projected supply of teachers. As the table shows, the PACE report estimates that there will be a shortage of between 21,300 and 34,700 teachers over the next five years.

**Other Findings.** The PACE paper cites other reports indicating that teacher shortages will be particularly acute in math, science, and Spanish bilingual education, with the most severe shortage occurring in math.

We have surveyed a stratified, random sample of 40 districts (which contain approximately 30 percent of the state's public school enrollment) in order to determine how much difficulty districts are having in hiring teachers in specific shortage areas. The results of our survey tend to confirm the PACE report's findings. Specifically, our survey finds that (1) school districts are experiencing shortages, primarily in math and science, bilingual education, and special education and (2) during the next five years, there will be a disproportionately greater demand for teachers in

**DEPARTMENT OF EDUCATION—Continued**

these areas. This suggests that the teacher shortages will be particularly acute in these areas.

**Review of the PACE Study**

**Demand Projections.** As described above, the PACE demand estimate for teachers is based on the projected attrition of the current teaching force (due both to normal attrition and retirement), and growth in the student population. Our analysis discloses that the methodology used by PACE to project the demand for teachers is basically sound.

Moreover, the results of our own survey generally confirm PACE's estimate of the demand. We find that (1) normal attrition, retirement, and enrollment growth, each account for roughly one-third of the projected demand, and (2) during the next five years, a large proportion of the demand (approximately 44 percent according to our survey) will be for elementary school teachers.

**Supply Projections.** The PACE researchers acknowledge in their report that it is much more difficult to estimate the supply of teachers than it is to project the demand for teachers. Our review of the PACE report finds that the report's supply projections are probably too conservative.

Table 8 displays the number of teachers that the PACE report projects will come from the four "sources" of teacher supply described above.

**Table 8**  
**PACE Report on Teacher Supply and Demand**  
**Teacher Supply**  
**Annual Average Projections**

Supply Category	Number of Teachers	
	Low Estimate	High Estimate
Newly-credentialed teachers .....	2,354	—
Out-of-state teachers .....	1,500	—
Reserve pool .....	3,000	—
Emergency credentials .....	3,200	—
Total .....	10,054	11,200 <sup>a</sup>

<sup>a</sup> Estimate based on historical aggregate entry and re-entry rates into the teaching profession from all categories (not estimated separately by category).

In projecting the number of newly-credentialed teachers graduating from teacher education schools that will enter the teaching profession (used in the "low estimate"), the researchers multiplied the average number of "first" credentials recommended by California teacher training institutions during the years 1981-82, 1982-83, and 1983-84 (4,737) by the percentage of these first credential holders that were actually teaching in 1984-85 (49.7 percent). This yielded the estimate that 2,354 new teachers will enter the profession annually.

Our analysis indicates that this projection is probably too low, for two reasons. *First*, the number of first credentials recommended during the early 1980s was unusually low. This is because, at the time, there were few jobs in teaching and large numbers of students were not enrolling in teacher education programs. *Second*, the percentage of first credential holders that actually ended up teaching was unusually low because many of them could not find jobs.

This situation is already beginning to change. From informal discussions

with a number of education deans at various California State University campuses—the main supplier of the state's credentialed teachers—we conclude that schools of education are experiencing a dramatic increase in applications and enrollment. Many of the deans attribute the turnaround, which began in 1984-85, to increased public awareness of the "impending teaching shortage" coupled with the higher beginning teacher salaries that resulted from SB 813 (Ch 498/83).

As enrollments in education programs increase, the number of first credential holders will increase, and as more jobs open up, a larger percentage of the first credential holders will actually use their credentials and teach.

To illustrate how changes in these factors might affect the projected teacher shortage, assume that the number of first credential holders increases by *15 percent*, and that *70 percent* (instead of 50 percent) of these credential holders actually teach. Were this to happen, the supply of teachers would increase by 3,813 annually—1,459 more than the number of first credential holders projected in the PACE study. This would eliminate one-third of the annual shortage projected by PACE in its "low estimate." We believe these assumptions are more realistic than those that form the basis for the low estimate.

For similar reasons, our analysis indicates that PACE's "high" estimate of the teacher supply is probably too low, as well. This estimate—projected from the average entry and re-entry rates that prevailed during the past seven years—is based on the assumption that, in the next five years, individuals will enter and re-enter the teaching profession at the same rates as they did during the period when teaching jobs were scarce. Here again, these rates should be higher in the future when more jobs are available.

**Shortage Projections.** In summary, we believe that PACE's projections of the teacher shortage are overly pessimistic. Higher entry and re-entry rates into the teaching profession brought about by the greater availability of jobs and higher salaries will significantly alleviate the *overall* shortage of teachers.

The increased entry and re-entry rates, however, are unlikely to alleviate appreciably the shortages in certain disciplines—particularly, math, science, and bilingual education. Shortages in these areas have persisted even in times when there was not an "impending teacher shortage."

### **Options for Increasing the Supply of Teachers in Shortage Areas**

The Legislature has a number of alternatives for alleviating both the overall and area-specific teacher shortages. We discuss six of these options here: (1) lowering standards in shortage disciplines, (2) increasing class size, (3) raising salaries for all teachers, (4) increasing salaries in shortage disciplines, (5) providing alternative means of entering the teaching profession, and (6) expending the use of year-round schools.

**Option 1: Lower Standards in Shortage Disciplines.** In the past, California has responded to teacher shortages primarily by lowering standards in shortage disciplines. It has done this by granting "emergency" credentials and waiving certain credential requirements.

Both the number of emergency credentials for multiple- and single-subject teaching assignments, and the number of bilingual waivers granted have fluctuated during the past five years, presumably as teacher shortages have fluctuated. Nevertheless, both the number of emergency credentials and the number of waivers granted appear to be increasing. From 1983-84 to 1984-85, the number of emergency credentials increased

**DEPARTMENT OF EDUCATION—Continued**

by 55 percent (from 2,250 to 3,481), and from 1984-85 to 1985-86, the number of Spanish bilingual waivers has increased by 13 percent (from 4,524 to approximately 5,095). In 1984-85, the subject area for which emergency credentials was most often granted is math.

While this option may provide enough "warm bodies" in the classroom to teach, it does not really solve the shortage problem because it does not provide sufficient numbers of "qualified" teachers. On the other hand, were the Legislature to eliminate the use of emergency credentials, it would decrease the "supply" of teachers and hence exacerbate the shortages in specific disciplines.

**Option 2: Increase Class Size.** Another way of dealing with the shortage of qualified teachers is to increase the workload assigned to existing teachers. The most direct way to do this is simply to increase the number of students in the classroom.

There is some evidence that districts have used this option in the past—California's class sizes are large compared to national averages. The larger class sizes, however, could also be due, in part, to choices made by the districts to use limited funds for increasing existing teachers' salaries, rather than for hiring additional teachers when workload increases. (For further discussion of these issues, please see our analysis of "Reducing Class Size.")

We do not believe that this is an attractive option for the Legislature to pursue. While increasing class sizes might help alleviate shortages in the short run, it could tend to *increase* shortages in the long run. This is because large class sizes constitute a *negative* working condition for teachers, making teaching relatively less attractive to prospective entrants.

**Option 3: Increase Salaries for All Teachers.** Teacher shortages could also be alleviated by raising teacher salaries generally. The primary problem with this option, however, is that it would be *extremely* costly—particularly as a means of responding to shortages in specific disciplines.

Consider, for example, that in 1985, the average starting salary for college graduates with technical, mathematical and scientific training was approximately \$29,500. Currently, the beginning teacher salary in California is between \$19,000 and \$20,000. We estimate that raising just beginning teacher salaries to \$30,000 (under the provisions of SB 813) would cost the state nearly \$1 billion over five years.

**Option 4: Increase Salaries Only in Shortage Disciplines.** Perhaps the most direct way of addressing teacher shortages is to increase salaries in specific shortage disciplines. In a recently published paper, "Solving the Shortage of Mathematics and Science Teachers," Professor Henry Levin of Stanford University states that the primary cause of persistent teacher shortages in the areas of mathematics and science is that college graduates with degrees in math and science have more lucrative opportunities than do other majors. He concludes, "In the absence of special salary increments for science and mathematics teachers, the shortage will not be eliminated."

Higher education has found differential salaries an effective way to address shortages in certain disciplines. In another recently published paper, "The Shortage of Mathematics and Science Teachers: Lessons from Higher Education," Louis Woo found that differential salaries are a common mechanism used to recruit new faculty members in higher education, and that it is only by providing such salary differentials that higher education institutions have been able to maintain a faculty composition

with appropriate qualifications. In order for elementary and secondary schools to hire adequate numbers of qualified teachers in math and science, Woo concludes, schools must have the flexibility to provide salary inducements to prospective teachers with mathematics and science backgrounds that reflect prevailing market conditions.

This option has a number of advantages. *First*, it would be *cost-effective*, because it would directly address the shortage problem without raising the salaries of teachers who are *not* in short supply.

*Second*, the option would be easy to implement. Senate Bill 813 amended Section 3543.2 (d) of the Government Code to allow school districts and unions to bargain over the issue of paying "additional compensation based upon criteria other than years of training and years of experience." Hence, districts already have the authority to bargain for the right to provide teachers in shortage disciplines with higher salaries.

*Third*, there is some evidence that this option works. We know of at least one major school district that is offering bonuses to teachers in shortage areas, and is finding it an effective way to attract teachers in these disciplines.

Our survey, however, found that only 1.9 percent of school districts are exercising this authority. Why are more school districts not using the option? Based on our survey, we estimate that (1) two-thirds of the school districts are not taking advantage of this option because either the school district or the union is unwilling to bargain over the issue (some of the districts that responded to our survey did not wish to bargain over the issue because they were not experiencing a shortage and therefore had no "need" to pay differential salaries), and (2) nearly one-third of the school districts are not aware that this option exists.

We believe the Legislature may wish to consider establishing a voluntary program under which the state provides additional incentive funds to districts that pay additional compensation for teachers in shortage areas.

**Option 5: Provide Alternative Means For Individuals to Enter The Teaching Profession.** Another potential means of increasing the supply of qualified teachers is to provide means *other than* completing a traditional teacher training program for interested persons to enter the teaching profession. The Legislature created one such option in SB 813 by authorizing the Commission on Teacher Credentialing (CTC) to issue a "teacher trainee" certificate. This certificate authorizes the holder to teach in grades 7-12 under the guidance of a mentor teacher. In order to qualify for the certificate, a candidate must hold a bachelor's degree and pass the state basic skills competency test (CBEST). Trainees are eligible for a preliminary teaching credential after two years of service, upon recommendation by the school district governing board.

To date, very few districts have taken advantage of the teacher trainee option. Of those that have, one district—Los Angeles Unified (LAUSD)—accounts for 178 trainees, or 93 percent of the total number of trainee certificates issued statewide. The LAUSD has developed an extensive training program for its teacher trainees, which could serve as a model for similar programs in other districts. District administrators we spoke with were very enthusiastic about the results of the program to date, and believe that the quality of instruction provided by the trainees is as good as—or better than—that provided by graduates of more traditional teacher preparation programs.

The Commission on Teacher Credentialing is conducting a study of the LAUSD teacher trainee program to determine, among other things, how

**DEPARTMENT OF EDUCATION—Continued**

the caliber of teacher trainees compares to that of other beginning teachers. The study is scheduled to be completed by January 1, 1987. If the study substantiates the district's view that trainees are as effective in the classroom as other beginning teachers, and if the costs of training a teacher on-the-job are less than the costs of providing instruction at a state university, expansion of the teacher trainee option would provide a cost-effective means for the state to increase the supply of capable teachers.

Based on the results of the CTC study, therefore, the Legislature may wish to consider (1) authorizing the use of teacher trainees in lower grades and/or (2) providing additional funding to school districts which adopt the teacher trainee option, in order to cover the costs of on-the-job training.

**Option 6: Expand the Use of Year-Round Schools.** The use of year-round schools has been discussed primarily as a solution to the school facilities shortage program. It can also be considered an option for alleviating teacher shortages, however, by both (1) reducing the number of teachers needed, and (2) increasing the supply by attracting into the profession individuals that are interested in the higher salaries that would go with a 12-month work year.

We believe this option also merits legislative consideration. (In our analysis of school facilities programs, we recommend that the Legislature provide incentive funds for districts operating year-round schools.)

**Conclusion**

In conclusion, we believe that the Legislature should focus its efforts on those options which are targeted at either increasing the supply of teachers in specific disciplines where shortages exist (salary differentials for teachers in these disciplines, "teacher trainee" certificates) or utilizing the existing supply of teachers more effectively (year-round schools). We do not believe it would be cost-effective to deal with discipline-specific shortages through programs that are broader in scope or by increasing class sizes.

**2. Reducing Class Size**

The National Education Association's *Ranking of the States, 1985* reports that California's student-teacher ratio is the second highest in the country. Many believe that the state's class sizes should be reduced, in order to improve the quality of California's schools.

In this section, we review (1) California's class size measures and how they compare with those of other states, (2) the results of research regarding the benefits of class size reductions, and (3) options that the Legislature may wish to consider in order to bring about reductions in class size.

**How Do California's Class Sizes Measure Up?**

Before examining California's class size statistics, it is important to understand the difference between the two most commonly-used measures for "class size":

**Pupil-teacher ratio**, the more commonly available figure, is the number of students enrolled divided by the full-time equivalent number of teachers. This gives an indication of the total teaching resources available to each student.

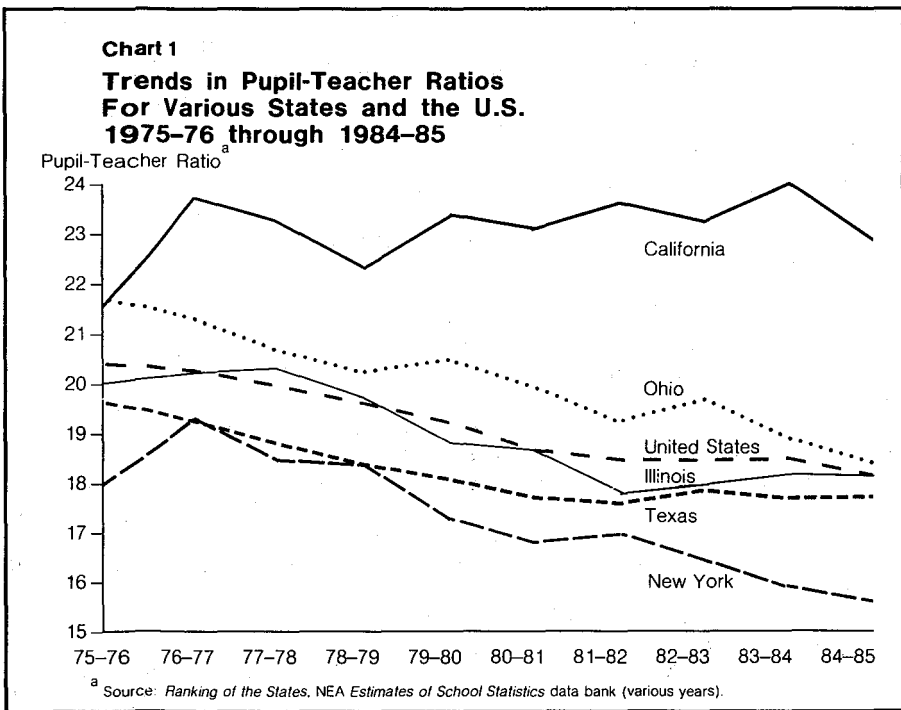
**Average class size** is the total number of students in classes divided by the number of classes. This measure is often used as an indicator of class-



room environment, because it measures the typical size of a group receiving instruction.

Because not all teachers are individually responsible for regular classes, the pupil-teacher ratio typically is lower than the average class size for the same year.

**Comparing California's Pupil-Teacher Ratio to Those of Other States.** Chart 3 shows historical trends in *pupil-teacher* ratios for California, the United States, and four states with the largest school enrollments. As the chart shows, California's pupil-teacher ratio is much higher than the ratios for other large states and higher than the national average. Furthermore, over the 10-year period from 1975-76 to 1984-85, California's pupil-teacher ratio has remained high while both the ratios for other states and the national average have declined.



We can identify no single, satisfactory explanation for California's relatively high pupil-teacher ratios. Our review indicates, however, that it could be due to any or all of the following:

- School districts and unions may have chosen to use limited funds for increasing the salaries of existing teachers, rather than for hiring additional teachers when enrollments increased, thereby causing class sizes to grow.
- A shift in the relative distribution of state aid away from general-purpose funds and towards categorical program funds (which, in many cases, may not be used to pay salaries of regular classroom

**DEPARTMENT OF EDUCATION—Continued**

teachers) may have created additional pressure for districts to use any increase in general-purpose funds for salary increases.

- In some school districts, high pupil-teacher ratios may reflect a shortage of school facilities that prevent the districts from hiring additional teachers.

**Data on Class Size.** The State Department of Education's California Basic Educational Data System (CBEDS) provides the following estimates of California's class size measures in 1984-85:

**Overall**—The average class size for regular academic classes was 28.5 students.

**By Grade Levels**—The average class size for self-contained classrooms in grades K-8 was 27.5. The average class size for departmentalized academic classes in grades 7-12 was 28.9.

**By Subject Matter**—The average class sizes for core academic secondary courses were: English—27.4, mathematics—29.1, science—29.8, and social science—29.9.

**By County**—Average class sizes range from 29.2 in Alameda County to 19.8 in Trinity County.

**By Urban/Non-Urban Areas**—Of the eight major urban counties (Alameda, Contra Costa, Los Angeles, Orange, San Diego, San Francisco, San Mateo, and Santa Clara), six are among the 15 counties with the largest average class size.

**Does Class Size Matter?**

Many believe that reducing class size will have a positive impact on the quality of education. Below, we review the results of research on the impact of reducing class size.

**On Students.** The most comprehensive study to date in the field of class size research was published in 1978 by Gene Glass and Mary Lee Smith of the Far West Laboratory for Education Research and Development. The Glass and Smith study indicates that students perform better in smaller classes. Their results, however, show that the largest improvements in student achievement occur when class size is *reduced below 20 students*.

Glass and Smith produced a complementary study focusing on the effects of reduced class size on student and teacher attitudes and on the overall instructional environment. They concluded that reducing class size has a positive effect on student participation, interest in school, and self-image. Moreover, these effects were found to be significant for class size reductions within the 20 to 30 student range.

No studies have successfully refuted Glass and Smith's primary conclusions, which are supported by the education research community generally. Some educational researchers, however, warn that the importance of class size, relative to a myriad of other educational variables, has yet to be assessed.

**On Teachers.** In their study relating the effects of class size to variables other than educational achievement, Glass and Smith found that the greatest impact of class size reductions was on *teachers' attitudes*, especially teacher morale and attitude toward students. A more recent field study, however, conducted by the Far West Laboratory and reported in "What Happens in Smaller Classes?," concludes that smaller classes do not neces-

sarily make for more *effective* teachers. Although teachers in smaller classes had more time for individual students and more opportunities for enriching their curricula, they did not dramatically alter their basic teaching methods.

**On School Environment.** Glass and Smith found that smaller classes are associated with better classroom climates. In "What Happens in Smaller Classes?," the researchers reported that classroom management was more effective when class size was reduced: discipline problems were fewer, student attention rates were higher, and absenteeism was reduced.

Based on these findings, the Legislature may wish to focus on options for reducing class size. These options, however, are very expensive.

### **How Much Does It Cost to Reduce Class Size?**

In estimating the cost of reducing class size, one must take into account the cost of capital outlay as well as the cost of additional teachers. Ideally, this requires estimates of (1) the amount of existing, unused classroom space in schools and (2) the cost of constructing or otherwise acquiring new classroom space. Unfortunately, however, it is difficult to make these estimates. That is because there are no data on the amount of unused classroom space, by district. Moreover, the cost of acquiring new classroom space varies considerably throughout the state.

For these reasons, we only present an estimate of what it would cost to reduce the average pupil-teacher ratio statewide by 1. The reader must keep in mind that reducing *this* ratio will bring about a corresponding reduction in class size if a district has unused classrooms.

Assuming that the average cost of hiring all of the new teachers required to reduce the pupil-teacher ratio would equal the existing, average beginning teacher's salary and benefits in 1985-86 (\$22,788), we estimate that the cost of reducing California's pupil-teacher ratio by 1 is \$163.8 million. (For comparative purposes, we estimate that if the state were to reduce its *average class size* by one in grades K-8 and if the affected students had to be put in new classrooms, the state would require approximately 3,000 more classrooms. This would impose a one-time capital outlay cost of \$300 million, in addition to the \$163.8 million ongoing cost of the additional teachers.)

### **Options for Reducing Class Size**

The selection of an appropriate strategy for reducing class size must depend to a large degree, on (1) what are the causes of California's large class sizes and (2) what are the underlying problems that the Legislature expects the reduction in class size to address.

There are three general policy options that the Legislature may wish to consider in order to bring about reductions in class size, or to achieve many of the beneficial effects that are believed to be associated with smaller classes. These options include (1) encouraging districts and unions to address the issue of reducing class size through the collective bargaining process, (2) providing fiscal incentives for districts to reduce class size, and (3) providing school districts with additional revenue sources to finance school facilities (assuming that large class sizes are primarily a school facilities problem).

**Option 1: Encourage Districts and Unions to Reduce Class Size Through Collective Bargaining.** Because some of the more significant effects associated with a reduction in class size relate to teacher morale and working conditions, it could be argued that this issue is appropriately

**DEPARTMENT OF EDUCATION—Continued**

addressed by districts and unions through collective bargaining. Some school districts have, in fact, addressed the issue in this manner. In effect, the district and the union have agreed to “trade off” some funds that otherwise would go for salary increases so that the funds can be used instead for reducing class size.

Rather than provide funds specifically for the purpose of reducing class size, therefore, the Legislature might wish to provide additional general-purpose funds for schools—and allow the districts and their employees to decide whether these funds are better spent on increasing the salaries of existing teachers or by improving the teachers’ working conditions through smaller class sizes.

**Option 2: Provide Fiscal Incentives to Reduce Class Size.** If the Legislature decides that the potential statewide benefits of reducing class size are sufficiently great, it may want to provide districts with additional funding specifically for this purpose. There are two ways in which this could be done. First, the Legislature could mandate maximum class sizes or pupil-teacher ratios in specific subject areas or grades, and reimburse districts for the costs of complying with this mandate. Second, the Legislature could provide a specified amount of incentive funding for the purpose of reducing class sizes, and allow each district to determine whether it wished to accept the funding.

Because the potential costs associated with a statewide mandate to reduce class size are unpredictable—and probably extremely high (especially when capital outlay costs are considered)—we do not believe this approach has merit. Instead, we suggest that the Legislature focus on incentive funding approaches, where the potential state costs are not open-ended and, instead, can be controlled by the state.

We have identified four variations on the theme of incentive funding: (1) incentives for reducing a district’s overall pupil-teacher ratio, (2) incentives for class size reductions in specific grades or subject areas, (3) incentives for areas of “critical need,” and (4) incentives for programs that increase student-instructor interaction.

- **Incentives for Reducing the Overall Pupil-Teacher Ratio.** Under this option, the state could provide districts with a fixed dollar amount per unit of average daily attendance (ADA) for each unit improvement in the pupil-teacher ratio toward a defined goal. As noted above, the state would incur costs up to \$163.8 million in order to reduce the pupil-teacher ratio by one if the state covered the full cost of additional teachers and if all school districts needed to reduce their ratios.
- **Incentives for Reducing the Ratios in Specific Grades or Subject Areas.** A few states offer incentives to reduce class size in elementary grades, in order to insure that students will master basic learning and social skills. In Indiana, for example, Project Prime Time provides districts with \$18,000 for each teacher hired to lower the pupil-teacher ratio in grades K-3.

Another approach is to target core academic courses at the secondary level. Although researchers have found no relationship between subject matter and class size benefits, the benefits derived from reduced class size may be more important in certain subject areas. In 1985, SB 1210 proposed a voluntary program that would have provided funding to school districts offering classes in core academic areas staffed at a maximum class size of 20. We estimated that this

would cost \$60 million in the first year of the program, and \$500 million-to-\$600 million annually once fully implemented. The Governor vetoed this measure.

- ***Incentives to Districts with Critical Need.*** The largest class sizes in the state occur in a relatively small number of school districts. These districts, however, account for more than 60 percent of the state's total ADA. Targeting funding on these districts may be more cost-effective in reducing the state's average class size than a state-wide program. (No state has enacted legislation that addresses the class size problem in this manner.)
- ***Incentives for Programs that Increase Student-Instructor Interaction.*** Educational researchers have found that the most significant difference between large and small classes is the amount of individualized attention each student receives. Districts can provide more individualized instruction at relatively low cost by employing a variety of well-known education techniques, including: cross-age tutoring, staggered or split scheduling, in-class teachers' aides, computer learning, and team teaching. Instead of providing districts with funds for more teachers, the state could provide incentives for the implementation of such instructional methods.

***Potential Pitfalls of Incentive Funding.*** Although we believe that the incentive funding approach to reducing class size has significant advantages over an approach that mandates reductions, the Legislature should be aware of two potential pitfalls associated with these incentives.

First, the incentives would create a demand for more teachers, thereby exacerbating the teacher shortage problem.

Second, to the extent that the state's large class sizes are due primarily to a lack of classroom space, the provision of incentive funds to cover the costs of hiring additional teachers will not address the problem. Such an approach could, in fact, exacerbate disparities between districts that lack the space needed to reduce class sizes (and hence are unable to participate in the program) and those districts with excess classroom capacity that are able to participate.

***Option 3: Give Districts the Means to Build More Schools.*** If the state's large class sizes reflect a shortage of classrooms, the most effective means of reducing class size may be to build more schools. In our discussion of school facilities later in this analysis, we propose changes to the existing system for funding school construction that would provide school districts with an opportunity to raise large amounts of funding for new schools.

## **Conclusion**

In sum, we find that the state's pupil-teacher ratio has remained high despite a downward trend in the ratio nationally, but have found no single explanation for this situation. Although reducing class size has the potential to yield many benefits, the most significant impact is on teachers, and the most significant improvements in student achievement appear to require class sizes that are well below the state's current average. If the Legislature wishes to reduce class size directly, we recommend that it use one of the fiscal incentives described above. The incentive, however, should be designed to (1) attack the underlying causes for large class size and (2) direct funding to districts with the greatest need.

Because the costs of reducing class size directly are quite high, we also recommend that the Legislature consider other options that could im-

**DEPARTMENT OF EDUCATION—Continued**

prove the classroom environment including (1) incentive funding for programs designed to increase student-teacher interaction and (2) reforms to the state's school facilities aid program, so that districts can build the schools they need.

**3. Addressing the Dropout Problem**

Numerous reports have called attention to high dropout rates in many states, including California. Some estimate that as many as one-fourth to one-third of the nation's youth may not graduate from high school. In California, high dropout rates pose a problem not just for the public school system, but for the state as a whole, since there is evidence that high dropout rates may contribute to higher rates of unemployment and welfare dependence.

In this section, we review (1) what is known about the magnitude of the dropout problem, (2) what some of the limitations are with existing data on dropouts, (3) the major factors causing students to drop out, and (4) various strategies that are available for addressing the problem.

**Magnitude of the Problem**

It is difficult to obtain precise figures on the extent of the dropout problem in California, since only a few school districts keep accurate records on the number of students who drop out of school and their reasons for leaving.

**Statewide Data.** Although data specifically on dropouts is not available, it is possible to estimate the magnitude of the problem statewide using various other types of data.

The Assembly Office of Research (AOR), in a recent report, "Dropping Out, Losing Out," attempted to measure the magnitude of the dropout problem by calculating statewide attrition rates for the class of 1983. (Attrition refers to the number of students who leave school during a given time period.) AOR found that the rate of attrition for the class of 1983 after the ninth grade was 29.3 percent. It found an even higher attrition rate for some minority groups (40 percent for blacks and American Indians, 39 percent for Hispanics). Not all of those who drop out are necessarily lost from the educational system. AOR estimated, for example, that 39 percent of all high school leavers received a diploma equivalent and/or entered trade school or community college immediately after leaving high school.

AOR's estimates of the dropout rate may be higher or lower than the actual rate for several reasons. On the one hand, AOR's figures may *overstate* the magnitude of the problem because its attrition data includes students who transferred either to schools in other states or to private schools. On the other hand, AOR's attrition figures may *understate* the number of students who drop out because (1) some attrition may be "hidden" by the tendency for immigration to, in effect, backfill for the dropouts, and (2) the figures make no allowance for students who dropped out of school prior to the ninth grade.

Despite these limitations, however, we were able to confirm the general magnitude of the dropout problem found by AOR, using a different methodology.

Using data for 1979-80, we compared the number of students enrolled in school with the number of school-aged youth in the general population. Our findings are displayed in Table 9. The table shows that, by twelfth grade, only 71 percent of all school-aged youth who we estimate *should* be

attending school are actually enrolled. This suggests that as many as 29 percent of all students may drop out prior to enrolling in the twelfth grade. The percentage of students who drop out *prior to high school graduation* could be as high as 36 percent, since it is estimated that as many as 10 percent of all students who enroll in the twelfth grade fail to graduate. Thus, while our figures also provide only rough estimates of the magnitude of the statewide dropout problem in California, they suggest that the attrition rates reported by AOR are fairly accurate measures of the problem.

**Table 9**  
**Ratio of School Enrollment to**  
**School-Aged Population**  
**By Grade Level**  
**1979-80**

Grade	School Enrollment	School-Age Population <sup>a</sup>	Ratio	Percent Change Over Prior Grade Level
12 .....	302,676	425,857	0.71	-16.5%
11 .....	344,737	405,032	0.85	-6.9
10 .....	373,479	408,684	0.91	-3.4
9 .....	368,048	389,145	0.95	-0.2
8 .....	345,552	364,655	0.95	-1.2
7 .....	344,172	358,705	0.96	+0.8
6 .....	337,001	354,023	0.95	-0.3
5 .....	350,694	367,439	0.95	-0.8
4 .....	361,281	375,490	0.96	-0.5
3 .....	347,847	359,626	0.97	-0.5
2 .....	327,262	336,684	0.97	+0.3
1 .....	329,155	339,742	0.97	+29.1
K .....	325,902	434,309	0.75	—

<sup>a</sup> Adjusted for students overage or underage for grade.

Table 9 also shows, by grade category, the ratio of school enrollment to the number of youth in each corresponding age category, adjusted to take account of students who are potentially overage or underage for their grade. Assuming that the change in these ratios from one grade to the next can be used as a rough proxy for the dropout rate in each grade, the data appears to indicate that students generally do not drop out until they reach high school. This is in contrast to some studies which suggest that a significant number of students begin dropping out in junior high school.

**Local Data.** As noted earlier, few school districts keep records on the number of students who drop out, and their reasons for dropping out. There are two explanations for this. First, there is no legal requirement that such data be collected. Second, many district administrators are reluctant to collect data which some might interpret as measuring "failure" on the part of the school district.

As a result, it is very difficult to measure the magnitude of the dropout problem in individual school districts. (Attrition rates are sometimes used by school districts as proxies for dropout rates. Such estimates are unreliable at the local level, however, since local attrition data picks up students who have transferred to other school districts.)

Even when local districts collect dropout data, the information often is worthless because there is neither a standard definition of what constitutes

**DEPARTMENT OF EDUCATION—Continued**

a dropout nor a common methodology for estimating dropout rates. It is not surprising, therefore, that individual estimates of dropout rates made by different school districts vary widely. Some districts estimate a rate as low as 2 percent; others, put the rate as high as 50 percent. We do not know to what extent these variations reflect only differences in methodology, as opposed to actual differences in dropout rates.

**Causes of the Dropout Problem**

Our review of various studies concerned with the reasons that students drop out of high school reveals that a variety of factors may contribute to high dropout rates. Some of the most important factors cited in these studies include:

- Inadequate school counseling;
- Large and impersonal schools;
- Failure to ensure that all students entering high school are proficient in basic academic skills;
- Teenage pregnancy;
- Lack of parental support to stay in school;
- The need or desire of some students to work; and
- The lack of proficiency in English.

These factors exist in different school districts, in varying degrees and combinations. Some districts may have high dropout rates because a large number of students in the district must work in order to supplement their families' incomes; in other districts, the factors contributing to high dropout rates may be more related to school size or the quality of instruction.

Because of differences in the causes of dropping out, intervention strategies that may be effective in reducing the dropout rate in some school districts may not work in others. Thus, the studies suggest that solutions to the dropout problem must be tailored to the specific causes of the problem in individual districts.

**Strategies for Addressing the Dropout Problem**

Our field visits indicate that school districts are experimenting with a variety of different strategies in order to address the dropout problem. These efforts include: (1) establishing within certain high schools special mini-schools to provide individualized instruction to youth who are believed to be at risk of dropping out, (2) increasing the accessibility of adult education courses to students enrolled in the regular high school, (3) using prerecorded telephone recordings to notify parents whose children have been absent from school, (4) requiring period-by-period attendance in order to reduce truancy, and (5) advertising the availability of alternative educational programs in order to persuade youth who have already dropped out to return to school.

**The State's Role.** Given that the dropout problem is caused by a variety of factors which differ among school districts, there does not appear to be any one solution to the problem. For this reason, we believe that the most appropriate role for the state in this area is to encourage school districts to implement *locally-designed* solutions to the dropout problem. The Legislature may wish to consider providing school districts with the resources necessary to experiment with a variety of potential solutions to the problem, and monitoring the results achieved by these approaches, in order to identify those that are most cost-effective.



The Legislature has taken the first step toward these ends by enacting SB 65 (Ch 1431/85). This measure is intended to encourage school districts to develop *local* strategies for preventing students from dropping out. The measure provides districts with funds to (1) design local dropout prevention programs, known as pupil motivation and maintenance programs, and (2) hire an "outreach consultant" at each school to help administer these programs and assess student needs. (The Governor's Budget proposes \$9 million for these purposes in 1986-87.) While funding is not provided for the ongoing operation of motivation and maintenance programs, participating districts are allowed to use staff from existing programs, such as the Miller-Unruh Reading Program, Special Education, and ROC/Ps, to deliver services to youth who have been identified as potential dropouts. Staff from these other programs also are encouraged to provide advice and assistance to classroom teachers.

In addition to pupil motivation and maintenance programs, SB 65 also created two new programs to help school districts deliver services to students who have *already* dropped out of school. These programs are: (1) alternative education and work centers, which provide vocational training in conjunction with instruction in basic skills, and (2) educational clinics, which are designed to prepare students for entry into other educational programs. The Governor's Budget proposes \$4.3 million to fund these programs in 1986-87. (The budget proposal is analyzed elsewhere in this K-12 analysis.)

#### **Directions for Further Legislative Efforts**

Our analysis indicates that the dropout problem is beginning to be addressed by state and local efforts. What is needed now is a standard methodology for evaluating dropout prevention strategies so that the effectiveness of different solutions can be judged.

Senate Bill 65 does not require any formal evaluation of the relative effectiveness of the various dropout prevention strategies. The measure only requires that dropout *recovery* strategies be evaluated. Without some reliable indicator of what type of strategies are successful, the Legislature will have no basis for determining what type of programs to fund in the future.

There are two issues which should be addressed before the state implements a standard methodology for evaluating dropout programs. First, valid and reliable data on existing dropout rates must be made available. Second, formal procedures must be developed for evaluating specific dropout programs in a uniform fashion.

As noted above, it is very difficult to accurately measure dropout rates at the local level because there is little consistency in the amount and type of dropout data collected by local school districts. There are no statutory requirements that districts either keep records on individual dropouts or report dropout data. (In 1985-86, the Legislature approved AB 2454, which would have mandated the reporting of this data, but the measure was vetoed by the Governor.) A legal mandate specifying what data school districts must report would help ensure that the Legislature has valid and reliable data on dropout rates, against which dropout prevention strategies could be evaluated.

Concerning the second issue, we believe that the SDE should develop evaluation procedures which can utilize various sorts of data collected at the local level, including dropout data, in order to measure the cost-effectiveness of various programs, as well as the potential for replicating programs in other districts.

**DEPARTMENT OF EDUCATION—Continued****Conclusion**

The dropout problem is a large and complex issue that is not amenable to any quick solutions. This argues in favor of the approach that the Legislature is taking in addressing the problem: providing funding to assist school districts develop and implement locally-designed dropout prevention strategies. Our analysis indicates that the Legislature next needs to ensure that these strategies are evaluated in a uniform manner from program to program, in order to determine what type of strategies are most cost-effective. This may require that the Legislature (1) mandate that districts collect consistent data on pupil dropout rates, and (2) require the development of uniform procedures for evaluating local dropout prevention programs.

**4. Financing School Construction**

Since the passage of Proposition 13 in 1978, the burden of providing funding for local school facilities construction and reconstruction has shifted from local school districts to the state. In the intervening years, the voters have approved two statewide bond issues totaling \$950 million, and the Legislature has appropriated a total of \$450 million in tidelands oil revenues, for school facilities. Yet, despite these expenditures, the amount of state revenues available falls at least \$465 million short of meeting local demand for school facilities financing.

In this section, which is a synopsis of a larger discussion contained in the *Analysis's* companion document, *The 1986-87 Budget: Perspectives and Issues*, we discuss the current system for allocating state funds for financing school construction. We also present an alternative financing system—a system which would return the primary responsibility for raising revenues to local school districts without violating the principles of equity in school finance enunciated by the California Supreme Court in *Serrano v. Priest*.

**Funding for School Construction**

Prior to the passage of Proposition 13, local school districts financed the construction of school facilities either by issuing local school construction bonds, or by obtaining a loan from the state under the State School Building Aid Program. In either case, district voters first had to approve the borrowing by a two-thirds vote. Funds borrowed by a district were repaid using property tax revenues. In order to provide adequate security for the bonds or loans, the district-borrower found it necessary to levy an additional property tax.

Proposition 13 eliminated the ability of local school districts to impose special property taxes of the type previously used to pay off indebtedness. In response, the Legislature revised the State School Building Lease-Purchase Act so that the state no longer provides loans to school districts; instead, it essentially provides school districts with a grant to construct, or reconstruct, a school facility.

**School Construction Need**

There are no reliable estimates available of the *need* for school facilities funding on a statewide basis. We can, however, provide data on the volume of school facilities funding requests that are pending before the State Allocation Board (SAB).

As of January 23, 1986, 339 applications from school districts were on file with the State Allocation Board, requesting \$902 million for *new* construction. In addition, 901 applications were on file with the board requesting approximately \$798 million for *reconstruction* of school facilities. In total, districts with applications currently on file with the SAB are requesting \$1.7 billion for school facilities. In comparison, an estimated \$1.2 billion is authorized to be available in 1985-86 and 1986-87 to fund these requests. Consequently, even if no additional applications are filed and all available revenues are used, the SAB will not be able to fund an estimated \$465 million in projects.

To the extent that (1) school districts file additional requests for aid with the SAB between January 23, 1986 and the end of 1986-87 and/or (2) the Legislature approves the Governor's proposal to defer the appropriation of \$150 million in tidelands oil revenues, the gap between available funds and the demand on those funds will widen. On the other hand, authorization of additional bond sales, such as Senate Bill 1133 proposes, would narrow the gap.

**Problems with the Current Process for Allocating Revenues**

Our review identifies four major problems with the existing system for allocating state funds to local school districts:

1. ***The process is slow.*** It takes several years, and frequently as long as five years to review, process and allocate funds for a single school construction project.

2. ***No priorities.*** Once districts meet a minimum threshold of 10 percent overcrowding, all funds are provided on a first-come first-served basis, without regard to the district's need, its ability to finance school construction, or the severity of the district's space problem.

3. ***Outdated standards are used.*** The classroom loading standards that, by regulation, the SAB requires local school districts building facilities with state funds to meet have been in place since 1955, and do not reflect changes in facilities usage patterns resulting from educational changes (such as the proliferation of special-purpose categorical programs) that have occurred over the last 30 years.

4. ***Fragmented responsibility.*** School districts are unable to track or expedite the progress of an application because there is not single state agency responsible for shepherding an application through the entire process.

**Our Proposal: Return Revenue-Raising Ability to the Districts**

Because the current method of funding school construction (1) fails to provide sufficient funds to meet district needs in a timely manner and (2) fails to distribute equitably the burden of paying for new school facilities, we recommend that the option of raising funds through temporary property tax increases be reestablished for local school districts.

The Legislature has taken the first step towards restoring school districts' revenue-raising abilities by approving ACA 55. This measure, which will appear on the June 1986 ballot, provides that local governments may—with the approval of two-thirds of district voters—incur bonded indebted-

**DEPARTMENT OF EDUCATION—Continued**

ness for site acquisition and capital outlay and pay off the bonds by temporarily increasing the property tax rate.

We further recommend that the Legislature take a second step—one intended to ensure that all districts, regardless of their property tax base, are able to raise sufficient revenues for financing their local school facilities needs. Specifically, we recommend that the Legislature enact legislation (contingent upon voter approval of ACA 55) guaranteeing every school district a certain minimum revenue yield from a given tax rate. The funding source for this guarantee would be the revenues from (1) school construction bonds issued by the state and (2) tidelands oil and gas operations.

***How the Guarantee Would Work.*** In broad outline, this new funding mechanism would work as follows:

- A school district would submit information on its need for new school facilities to the SAB, which, in turn, would certify the accuracy of the district's estimates regarding the number of students to be housed in the new facility.
- The district would then consult a schedule showing the amount of revenue per pupil housed which it could raise from a given tax rate. This basic schedule would be the same for all districts throughout the state, even though the actual amount of revenue raised by each tax rate would vary considerably from place to place. Such a schedule could include "adjustment factors" to reflect local differences in the costs of site acquisition and construction.
- Based upon the costs of the facility per pupil housed, the district would choose a tax rate from the guarantee schedule and submit this rate to the local voters for their approval.
- If the voters approved the measure, the district then would be authorized to levy the new tax rate. If the revenues raised by the tax were less than the amount guaranteed by the state schedule, the state would make up the difference.

**Advantages of the Proposal**

This approach to financing the construction and reconstruction of local school facilities offers the following advantages over the current system:

- It would increase incentives for each school district to choose the most cost-effective solutions for its school facilities needs, because the beneficiaries of school construction projects would be required to pay at least some part of project costs.
- It would enhance local control by enabling local school districts to develop their projects based on local, rather than state, priorities.
- It would provide local school districts with an opportunity to raise substantial amounts of money for new construction within a shorter period of time, because the role of the state in reviewing and approving applications would be substantially reduced.
- It would provide districts with greater flexibility and the opportunity to conduct long-range planning, by allowing them either to construct new facilities or rehabilitate existing facilities, depending upon the costs and benefits of each alternative.
- It would make local school districts more accountable to those they serve, because voter approval would be necessary before bonds could be sold.

**Conclusion**

If our recommendations are approved, the state school construction aid program would be changed from one that allocates grant funds to districts with no matching contribution required, to a program providing grants based on a *variable* matching rate. Under this program, districts with a low property tax base would have a lower local matching requirement than districts with a high property tax base. In essence, the ability of all school districts to raise a given amount of revenue for a given level of tax effort would be *equalized*. At the same time, the program would allow local discretion in determining the exact amount of revenue to be raised.

By carefully designing the guarantee schedule, the Legislature can provide strong fiscal incentives for school districts to construct facilities at a "standard" level of costs per pupil house, while still allowing local communities to tax themselves at somewhat higher rates in order to provide either more space per pupil or a higher quality of construction.

**ANALYSIS AND RECOMMENDATIONS****I. DIRECT SUPPORT FOR K-12 EDUCATION PROGRAMS**

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 relating to classroom instruction, (2) programs relating to teaching and administration, (3) the Special Education program, (4) vocational education programs, and (5) compensatory education programs.

**A. GENERAL EDUCATION PROGRAMS**

We define general education support funds as those funds which can be used at the local district's discretion to provide services for all students and which are not associated with any specific pupil services program. The funds 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 10, the budget proposes total general education expenditures (consisting of apportionments and other expenditures) of \$13,745 million in 1986-87. This is an increase of \$1,221 million, or 9.7 percent, over the current-year amount, and is composed of an \$863 million increase in General Fund support, a \$266 million increase in revenues from local sources, a \$3 million increase in support from the State School Fund, and an \$89 million increase in funds from the state lottery. Federal aid for general education programs is expected to remain constant at \$52 million.

Within the total, the budget proposes \$11,471 million in general education apportionments for K-12 districts and county offices of education in 1986-87—an increase of \$962 million, or 9.1 percent, over the amount provided in 1985-86. The state General Fund contributes 71 percent of this amount, while local property taxes account for 29 percent. The remaining general education expenditures are proposed at \$2,274 million in 1986-87—an increase of \$259 million, or 13 percent, over the current-year level.

## DEPARTMENT OF EDUCATION—Continued

**Table 10**  
**General Education Expenditures**  
**1984-85 through 1986-87**  
**(dollars in millions)**

	<i>Actual</i>	<i>Est.</i>	<i>Prop.</i>	<i>Change</i>	
	<i>1984-85</i>	<i>1985-86</i>	<i>1986-87</i>	<i>from 1985-86</i>	
				<i>Amount</i>	<i>Percent</i>
<b>A. General Education Apportionments:</b>					
K-12 districts .....	\$9,420.1	\$10,321.1	\$11,263.0	\$942.0	9.1%
State .....	(6,708.4)	(7,287.6)	(8,086.2)	(798.6)	(11.0)
Local .....	(2,711.7)	(3,033.4)	(3,176.8)	(143.3)	(4.7)
County offices .....	170.0	188.3	207.9	19.5	10.4
State .....	(85.5)	(90.9)	(102.8)	(12.0)	(13.2)
Local .....	(84.5)	(97.5)	(105.0)	(7.5)	(7.7)
Subtotals .....	\$9,590.1	\$10,509.4	\$11,470.9	\$961.5	9.1%
State .....	(6,793.9)	(7,378.5)	(8,189.1)	(810.6)	(11.0)
Local .....	(2,796.2)	(3,130.9)	(3,281.8)	(150.9)	(4.8)
<b>B. Other General Education:</b>					
Meals for Needy Pupils, Apprenticeship					
Programs .....	\$24.8	\$26.4	\$28.1	\$1.8	6.7%
Federal PL 81-874 .....	53.6	52.0	52.0	—	—
Urban Impact Aid .....	72.5	75.4	77.0	1.5	2.0
Meade Aid .....	9.9	10.3	10.5	0.2	2.0
Small School District Aid .....	19.1	19.9	20.3	0.4	2.0
Transfer to State Teachers' Retirement					
Fund .....	369.1	449.7	501.5	51.8	11.5
Miscellaneous <sup>a</sup> .....	1,034.7	1,380.7	1,584.4	203.7	14.8
Subtotals .....	\$1,583.8	\$2,014.4	\$2,273.8	\$259.4	12.9%
Totals .....	\$11,173.9	\$12,523.8	\$13,744.7	\$1,220.9	9.7%
<b>Funding Sources:</b>					
General Fund .....	\$7,261.1	\$7,939.7	\$8,802.9	\$863.2	10.9%
State School Fund .....	28.4	20.5	23.7	3.2	15.4
Federal funds .....	53.6	52.0	52.0	—	—
Local funds .....	3,830.9	4,269.8	4,535.3	265.5	6.2
Lottery Fund .....	—	241.8	330.9	89.1	36.8

<sup>a</sup> Includes lottery revenues (Governor's Budget estimate).

### 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. 1986-87 Budget Changes

Table 11 displays the changes from 1985-86 to 1986-87 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 in order to maintain the existing program, the budget reflects (1) a \$221.6 million increase to fund additional ADA in district and county office

of education programs, (2) a \$150.9 million reduction in General Fund costs resulting from an increase in local property tax revenues of this amount, (3) a \$619.2 million increase to provide a 5.78 percent statutory cost-of-living adjustment (COLA) for apportionments to K-12 districts (\$607.8 million) and county offices of education (\$11.4 million), (4) a \$107.0 million increase to fund the third, and final, year of the program which encourages school districts to increase the length of the school day, (5) a \$3.6 million increase to provide equalization adjustments to juvenile hall program revenue limits pursuant to AB 75 (Ch 1597/85), and (6) a \$10.9 million increase for a variety of other purposes. These baseline changes yield a net increase in funding of \$811.4 million.

**Table 11**  
**General Education Apportionments**  
**Changes Proposed for 1986-87**  
**General Fund**  
**(dollars in millions)**

1985-86 General Fund Expenditures (Revised) .....		\$7,358.0
A. Changes Needed to Maintain Existing Base:		
ADA increase.....	221.6	
Increase in local property taxes .....	-150.9	
Statutory inflation adjustments .....	619.2	
K-12 districts .....	(607.8)	
County offices .....	(11.4)	
Incentives for longer school day (SB 813).....	107.0	
Juvenile hall equalization (Ch 1597/85) .....	3.6	
Other baseline changes.....	10.9	
Total, Changes Needed to Maintain Existing Program .....		\$811.4
B. Budget Change Proposals:		
Revenue limit equalization .....	21.6	
Eliminate STRS unused sick leave funding .....	-17.5	
Reduce funding for "basic aid" districts.....	-5.0	
Reduce funding for juvenile hall equalization .....	-3.1	
Total, Budget Change Proposals.....		-\$4.0
1986-87 General Fund Expenditures (Proposed) .....		\$8,165.4
Changes from 1985-86:		
Amount .....		\$807.4
Percent .....		11.0%

In addition to the baseline changes, the administration has made four significant *budget change proposals*. First, the budget proposes \$21.6 million in additional revenue limit equalization. Second, the budget proposes to *eliminate* \$17.5 million in funding for the revenue limit increase required by Ch 1597/85. This increase is intended to cover the mandated costs associated with unused sick leave credits accumulated through the State Teachers' Retirement System. Third, through language provided in Control Section 20.40, the budget proposes to *reduce* funding to "basic aid" districts by \$5.0 million.

Finally, the budget proposes to *reduce* funding for equalization of county offices' juvenile hall program revenue limits by \$3.1 million. The net result of these four budget change proposals, which are discussed in greater detail below, is to *decrease* General Fund support for general education apportionments by \$4.0 million.

The total change in General Fund support for K-12 apportionments (baseline adjustments and program changes) is an increase of \$807 million,

**DEPARTMENT OF EDUCATION—Continued**

or 11.0 percent, over the 1985–86 level. This brings the level of General Fund apportionments proposed for 1986–87 to \$8,165 million.

**b. What Does "Equalization" Aid Equalize?**

*We recommend that the Legislature delete \$21.6 million requested from the General Fund for equalization aid because (1) the additional funding would result in only small gains in equalization, (2) the proposed "level-up" mechanism for distributing these funds would increase disparities in average per-pupil expenditures among different types of school districts, and (3) there are better and/or less costly means of achieving further equalization. (Delete Provision 13 in Item 6100-101-001 and reduce Item 6100-101-001 by \$21,600,000.)*

The California Supreme Court's landmark decision in the *Serrano v. Priest* case held that the state's then-existing school finance system—under which the amount of educational spending per pupil was largely determined by a district's property tax wealth—was unconstitutional. The court further directed the Legislature to devise a school finance system which would reduce the amount of such wealth-related disparities to "insignificant differences" of less than \$100 per pupil by 1980.

In an attempt to reduce wealth-related disparities among school districts, the Legislature has enacted various bills including:

- **Assembly Bill 65** (Ch 894/77). This measure, which was a direct response to the *Serrano* decision, provided school districts with differential cost-of-living adjustments (COLAs), depending upon their per-pupil revenue limits. Under this system, per-pupil funding levels would be drawn to the statewide average ("squeezed") over time.
- **Senate Bill 813** (Ch 498/83). This measure eliminated the equalization mechanism established in AB 65 and, in its place, provided that in 1983–84, revenue limits below a computed statewide average amount for districts of similar size and type would be raised to within \$50 of the computational average. The bill further provided that in 1984–85, below-average revenue limits would be raised the remainder of the way toward the computational statewide average. Senate Bill 813 provided \$23 million to implement this "level-up" equalization in 1983–84.
- **1984 Budget Act** provided \$149 million in 1984–85 for the additional equalization mandated by SB 813.
- **Assembly Bill 177** (Ch 1237/85) appropriated \$21 million in 1985–86 for further equalization, using the SB 813 allocation mechanism.

The Governor's Budget proposes that \$21.6 million in additional equalization funding be provided to school districts in 1986–87, using the "level-up" method of allocation.

Under the proposed allocation method, the State Department of Education (SDE) computes the amount of funding required to "level-up" revenue limits to the prior-year's statewide average *for districts of similar size and type*. The SDE estimates that in 1986–87, the total amount required for this adjustment is \$103.4 million. Equalization aid would then be prorated among districts in accordance with the actual amount of funding available—in this case, \$21.6 million.

In last year's *Analysis*, we identified three major problems with a similar proposal made by the Governor in his budget for 1985–86. This year's proposal exhibits the same three problems. First, the amount of funding



provided produces small gains in equalization. Second, while the proposed "level-up" mechanism would enhance equalization among districts of a similar type, it would at the same time increase disparities in average per-pupil expenditures among districts of different sizes and types. Finally, our analysis indicates that, if the Legislature wishes to achieve further equalization, there are better ways of doing so.

**Additional Funding Produces Small Gains in Equalization.** Table 12 shows the trends in equalization since 1974, as measured by the percentage of ADA within the *Serrano* "closure band" (\$100, adjusted for inflation since 1974), for each category of district. The table also shows the percentages of ADA that would be equalized in 1986-87, under two alternative assumptions: (1) no additional equalization aid is provided and (2) \$21.6 million in equalization is provided, as the Governor proposes.

**Table 12**  
**Trends in School Finance Equalization**  
**(Percent of ADA Within *Serrano* Closure Band)**  
**by Category of School District**  
**Selected Years**

School District Category	1974-75	1982-83	1984-85	1985-86	1986-87	
					No Additional Equalization Aid	Governor's Proposal (\$21.6 million)
Small elementary .....	15.8%	40.3%	74.7%	73.2%	73.5%	75.6%
Large elementary .....	38.5	92.3	92.1	92.6	92.9	93.7
Small high school .....	35.7	45.5	74.6	74.1	73.9	73.9
Large high school .....	31.5	82.0	86.8	87.2	87.3	89.3
Small unified .....	28.8	66.3	89.9	89.4	88.6	88.6
Large unified .....	58.3	96.3	97.0	97.0	97.1	97.1
Totals "	50.7%	93.4%	94.7%	94.8%	95.0%	95.4%

" Total ADA within closure band for all six categories, divided by statewide total ADA.

As Table 12 shows, the state has already made substantial progress in achieving school finance equalization since the 1974 *Serrano* decision. In 1974-75, 50.7 percent of ADA statewide was enrolled in school districts having revenue limits within the \$100 closure band (measured separately for districts of similar size and type). The data for 1982-83 indicate that 93.4 percent of statewide ADA was encompassed by the closure band (adjusted for inflation) in that year.

We note that these are the same data cited by the Los Angeles Superior Court when it determined in April 1983 that the state had complied with terms of the 1974 *Serrano* decision. Although the court's decision is being appealed by the plaintiffs in the case, the state currently is under no legal obligation to provide additional equalization.

Moreover, the state's current school finance system ensures that equalization will continue in the future. Each year, the state allocates to each school district of the same type (elementary, high school, or unified) the same flat dollar amount as a cost-of-living adjustment, calculated by multiplying a specified inflation index by the statewide average revenue limit for similar districts. As a result, the difference between the lowest and highest revenue limits remains constant in absolute dollar terms. Because the closure band used in measuring the extent of the state's compliance with the *Serrano* decision widens each year in order to reflect the effects

**DEPARTMENT OF EDUCATION—Continued**

of inflation, however, the percentage of statewide ADA falling within the band tends to increase—even if no additional equalization aid is provided.

Table 12 shows the overall effect of the current system. In 1985–86, 94.8 percent of all ADA were within the *Serrano* closure band. In 1986–87, *even if no additional equalization aid is provided*, the percent within the closure band will increase to 95.0 percent, exceeding the 1982–83 levels for every category of school district.

The \$21.6 million which the Governor requests for equalization aid would produce relatively small gains in the degree of equalization as measured using the closure band. Total equalization statewide would increase above the “no aid” level by only .4 percentage points—to 95.4 percent.

**“Level-up” Distribution Mechanism Would Increase Disparities Across District Types.** Our review of the Governor’s proposal indicates that, while it would tend to enhance equalization *within* the six categories of school districts, it would *increase* disparities in the average revenue limits *among* the categories. This is because the “level-up” approach proposed in the budget, if carried to its logical conclusion, achieves full “equalization” only when all school districts within each individual category are “levelled up” to the highest revenue limit for any district within that category. In other words, this approach implicitly assumes that districts with high revenue limits are funded at an appropriate level (and low revenue limit districts are underfunded.)

The flaw in this logic stems from the fact that high revenue limit districts in different categories are not funded at comparable levels. For example, among large elementary districts, the lowest revenue limit per ADA is \$2,155 (Hayfork Valley Elementary) and the highest is \$4,138 (Wilsomia Elementary)—a difference of \$1,983. Among small elementary districts, in contrast, the lowest revenue limit per ADA is \$2,341 (Delta View Joint Union) and the highest is \$7,282 (McKittrick Elementary)—a difference of \$4,941. Using the budget’s logic, this means that small elementary districts require a greater amount of equalization aid per ADA than do large elementary districts, since they are further below the average for their group. This, in turn, causes the new average for small elementary districts to grow at a rate that is greater than the average for large elementary districts.

Table 13 shows the effect on average revenue limits of the Governor’s proposal. In 1986–87, if no additional equalization aid is provided, the average revenue limit of a small elementary district will be approximately 25.8 percent higher than that of a large elementary district—a difference of \$623 per ADA. Under the Governor’s proposal, the gap would increase to \$649 per ADA—and the average revenue limit of a small elementary district would be 26.8 percent higher than that of its larger counterpart.

As Table 13 indicates, the cumulative effect of equalization efforts since 1982–83 has been to increase the difference between average revenue limits for large and small elementary districts from 21.8 percent to 26.8 percent (under the Governor’s proposal). The table also shows estimates of what revenue limits would be if sufficient “level-up” equalization were provided in 1986–87 to encompass within the *Serrano* closure band the revenue limits of school districts representing 95 percent of ADA in each category (“95 percent closure”). The difference in the average revenue limits for large and small elementary districts would rise to \$2,011 per ADA, and the average revenue limit of a small elementary district would be 80.8 percent higher than that of a large elementary district.

**Table 13**  
**K-12 Education**  
**Average Revenue Limits**  
**By Size and Type of School District**  
**1982-83 and 1986-87**

School District Category	1982-83	1986-87		
		No Additional Equalization Aid	Governor's Proposal (\$21.6 million)	At 95% Closure
Small elementary (less than 101 ADA) .....	\$2,088	\$3,040	\$3,073	\$4,499
Large elementary (more than 100 ADA) .....	1,714	2,417	2,424	2,488
Difference .....	\$374	\$623	\$649	\$2,011
	(21.8%)	(25.8%)	(26.8%)	(80.8%)
Small high school (less than 301 ADA) .....	\$2,358	\$3,442	\$3,459	\$3,635
Large high school (more than 300 ADA) .....	2,100	3,007	3,015	3,087
Difference .....	\$258	\$435	\$444	\$548
	(12.3%)	(14.5%)	(14.7%)	(17.8%)
Small unified (less than 1501 ADA) .....	\$1,968	\$2,761	\$2,771	\$2,910
Large unified (more than 1500 ADA) .....	1,865	2,580	2,584	2,581
Difference .....	\$103	\$181	\$187	\$329
	(5.5%)	(7.0%)	(7.2%)	(12.7%)

This dramatically illustrates the folly of continuing to pursue equalization *within* each category, without regard for the effect that this notion of equalization has on the revenue limits *among* categories.

At least two negative consequences flow from the growing disparities among the average revenue limits. First, whatever rational relationship among the average revenue limits once existed, it is steadily being eroded. For example, if the higher costs of small elementary districts justified a revenue limit that—on average—was 21.8 percent higher than the revenue limits for large elementary districts in 1982-83, there is no reason why this differential should be 26.8 percent in 1986-87 (or 80.8 percent under full “level-up” funding at 95 percent closure).

Second, and more importantly, as the differentials between the average revenue limits of small and large districts of the same type increase, the possibility that some districts will realize windfall revenue gains also increases. The opportunity to secure such windfalls arises in the case of those districts with enrollments that are close to the dividing line between the two size categories. For example, a “large” elementary district with 101 ADA and a revenue limit of \$2,500 would not qualify for additional equalization aid in 1986-87. If that district were to lose one pupil, however, it would become a “small” elementary school district, thereby qualifying for aid of approximately \$600 per ADA, in order to raise its revenue limit to the average for other small elementary districts. (If this district were to regain its lost ADA in the following year, its revenue limit would not be adjusted downward. Instead, its now-higher revenue limit would be included in computing the average revenue limit for large elementary districts, thereby creating a “need” for additional equalization aid in this category.)

**Better Equalization Alternatives Exist.** Finally, our analysis indicates that, if the Legislature wishes to achieve additional equalization in 1986-87, there are better alternatives for accomplishing this objective than what the Governor proposes.

**DEPARTMENT OF EDUCATION—Continued**

Because the “leveling up” approach implicitly assumes that districts with high revenue limits are funded at the appropriate level, it generally is the *most costly* means of achieving equalization. A less costly alternative is the AB 65 “squeeze” mechanism that was used to allocate COLA funds prior to 1983–84. Even within the “leveling up” framework, however, there are ways to eliminate the negative consequences of “equalization” listed above. One approach would be to eliminate, for equalization purposes, the distinction between small and large districts of the same type. While this would not reduce the costs involved in achieving 100 percent equalization, it would eliminate the potential for large windfall gains to districts that move from large to small size categories. (We are prepared to present the details of such a proposal to the fiscal committees, if requested to do so.)

For all of the foregoing reasons, we recommend that the Legislature eliminate from the budget the \$21.6 million in equalization aid requested by the Governor, for an equivalent General Fund savings. Consistent with this recommendation, we also recommend that the Legislature delete Provision 13 in Item 6100-101-001, which specifies the allocation of equalization aid.

**c. A Budget Reduction “Shell Game”**

*We recommend that the Legislature direct the Department of Finance to justify its proposal for reducing \$39 million in funding for school and community college apportionments and local mandate reimbursements based upon an assumed reduction in PERS employer contribution rates.*

The Governor’s Budget proposes to reduce funding for K–12 school and community college districts by \$39 million (\$17.5 million in the school apportionments item, \$3 million in the community colleges apportionments item, and \$18.5 million in the local mandates item). The rationale behind this proposal has two parts. First, the budget “expects” the Public Employees Retirement System (PERS) Board of Administration to reduce the rate at which school districts must contribute to PERS on behalf of their employees. This reduction is expected to save school districts and community colleges \$52 million. Second, because “the state supports approximately 75 percent of the costs of K–12 and community college districts,” 75 percent of these savings—or \$39 million—should accrue to the General Fund.

In addition, the budget proposes to continue a PERS-related reduction in school district revenue limit funding that has been imposed annually since 1982–83, thereby keeping revenue limits an additional \$12.5 million below what they would otherwise be.

There are several flaws in the administration’s proposal. It would appear that this complex series of budget changes is nothing more than a reduction of \$39 million in school district revenue limits. By reducing other, unrelated items in the budget, however, the true effect of the cut is obscured from view. In order to understand the proposal and the problems with it, however, one needs to be familiar with previous PERS-related reductions to school districts’ revenue limits.

**Background.** Pursuant to Ch 330/82 (SB 46), the PERS Board of Administration reduced the employer contributions to PERS that school and community college districts and county offices of education were

required to make in 1982-83. Recognizing that this change would produce savings for school districts and county offices, the Legislature provided for a corresponding reduction in revenue limits in the 1982 Budget Act. In 1983, the employer contribution rates were increased. Accordingly, the Legislature, in SB 813, provided for the reduction in revenue limits to be restored at the end of 1983-84.

The 1984-85 Governor's Budget proposed instead to make the PERS-related reduction in revenue limits permanent—an action which would have saved \$15.5 million. The Legislature rejected this proposal. Instead, the Legislature amended the trailer bill (Ch 268/84) to provide that (1) the PERS reduction would be continued in 1984-85 *only* and (2) the amount of the reduction would be adjusted downward to reflect the increase in employers' contribution rates since the original reduction was imposed. As a result, the amount of the PERS reduction in 1984-85 was \$10.4 million.

Last year, the administration again proposed to continue the PERS reduction (adjusted for changes in employer contribution rates), and on this basis the budget provided funding for revenue limits that was \$11.5 million below what it otherwise would be (the amount of the savings is now estimated at \$12.5 million). The Governor also proposed that no funding be provided to reimburse school districts or community colleges for mandated costs imposed by Chapter 89, Statutes of 1974. This measure required the State Teachers' Retirement System (STRS) to grant its members additional retirement service credit based on the amount of their unused sick leave.

In hearings before the conference committee on the 1985-86 Budget Bill, these two issues became joined. As passed by the Legislature, the 1985-86 Budget Bill proposed to:

- Continue the PERS reduction to school district revenue limits in 1985-86, for a General Fund savings in school apportionments estimated at the time to be \$11.5 million, and
- Appropriate a total of \$18.7 million from the General Fund—\$11.5 million (the amount saved by the PERS reduction) in the school apportionments item, \$2.8 million in the community college apportionments item, and \$4.4 million directly to STRS—for payment of the STRS unused sick leave credit mandate.

The \$18.7 million was vetoed, thereby leaving intact the PERS reduction but providing no funding for the STRS unused sick leave credit mandate.

Subsequently, the Legislature passed and the Governor signed AB 75 (Ch 1597/85). Among other things, this measure (1) increased employer contribution rates to the State Teachers' Retirement Fund by 0.25 percentage points, in order to fund the unused sick leave credit mandate and (2) appropriated \$20.1 million from the General Fund to fund these costs in 1985-86. The measure further provides that, in 1986-87 and thereafter, the \$20.1 million shall be "built into" the revenue limits of school and community college districts—thereby providing permanent state funding for this purpose.

**Governor's Budget Proposal.** The 1986-87 Budget once again proposes to mix together the PERS reduction and STRS unused sick leave credit issues. To further confuse matters, the Governor also proposes not to fund some additional mandates which have heretofore been funded by the state.

**DEPARTMENT OF EDUCATION—Continued**

Specifically, the Governor proposes to:

1. *Continue the "basic" PERS reduction for school districts* (as adjusted for changes in employer contribution rates through 1985-86), for a General Fund savings of \$12.5 million;
2. *Assume that PERS contribution rates will be reduced* by 15 percent in 1986-87, which would result in a savings to K-12 and community college districts of \$52 million; and
3. *Recapture 75 percent of these savings by:*
  - Reneging on the promise made in AB 75 that the state would adjust school and community college district revenue limits upward by \$17.5 million and \$3.0 million, respectively, to provide ongoing funding for the STRS unused sick leave credit mandate; and
  - Eliminating or reducing funding for various other state mandates imposed on schools and community colleges, thereby saving an additional \$18.5 million.

In total, the budget proposes funding adjustments that, together, reduce General Fund requirements by \$51.5 million from what they otherwise would have been.

**Analysis.** Our analysis identifies three problems with the Governor's proposal.

First, we find little, if any, basis for assuming that PERS will reduce employer contribution rates by 15 percent on July 1, 1986. These rates are adjusted each year, as needed, by the PERS Board of Administration. At the time this analysis was written, the board had not yet considered rate adjustments for 1986-87. Furthermore, we know of no evidence indicating that a substantial reduction in rates, such as what the Governor assumes, is warranted at this time.

Second, we find that the administration's rationale for recapturing 75 percent of the savings that accrue to K-12 school and community college districts betrays a fundamental misunderstanding of the way apportionment funds are provided. If the administration's objective is to "hold districts harmless" from any gain or loss resulting from changes in PERS contribution rates, then the amount provided for school and community college apportionments should be adjusted by the *full amount* of the change. This is because, under the state's revenue limit system, the state provides funding for *100 percent*—not 75 percent—of the marginal change in each school and community college district's revenue limit "guarantee."

Third, we are unable to understand why the Governor has proposed to recapture the savings by eliminating funding for various mandates, rather than by taking the more direct route of simply adjusting revenue limits based on the changes in PERS contribution rates that the administration expects to occur in 1986-87. Moreover, it is unclear whether, as a matter of law, the Legislature could implement the Governor's proposal to discontinue funding for the specified mandates—even if it wished to do so.

In sum, if the PERS contribution rates are not reduced by at least 15 percent, local districts will find that they are short of the money needed to maintain their existing programs. If, on the other hand, rates are reduced, districts may realize a windfall to the extent the administration's proposal for recapturing the savings cannot be implemented.

For all of these reasons, we recommend that the Legislature direct the Department of Finance to justify its proposal at the time of budget hearings. In particular, the Department of Finance should be prepared to discuss:

- the action it intends to take in the event that the anticipated reduction in PERS contribution rates fails to materialize;
- why it proposes to recapture only 75 percent, rather than 100 percent, of any savings that accrue to school and community college districts; and
- why it proposes to effect the recapture, in part, by eliminating funding for state-mandated local programs.

**d. Funding for Supplemental Summer School Programs May be Overbudgeted**

*We withhold recommendation on \$45,933,000 requested from the General Fund for supplemental summer school programs, pending receipt of additional information on projected participation rates.*

Senate Bill 813 (Ch 498/83) allows school 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." At present, the law limits the funded enrollment in these summer classes to 5 percent of a district's total enrollment. Schools are reimbursed at an hourly rate, for up to 120 hours per pupil. In 1985-86, funding was provided at a rate of \$1.69 per pupil-hour.

The Governor's Budget proposes \$45.9 million from the General Fund for supplemental summer school programs in 1986-87, \$5.9 million more than the current-year funding level. This increase provides for a projected increase in enrollments and a 5.78 percent COLA. (The hourly rate would rise to \$1.79 per pupil-hour.) The administration also proposes Budget Bill language authorizing a minimum allocation of "\$5,000 for supplemental summer school programs in those districts whose prior year enrollment was less than 500 and that, in the 1986-87 fiscal year, offer at least 1,500 hours of supplemental summer school instruction."

The State Department of Education (SDE) indicates that under the current funding formula, smaller districts do not receive sufficient supplemental summer school funding to cover the minimum costs of operating summer programs. The SDE estimates that the minimum cost for these programs is approximately \$5,000.

Based on 1984-85 ADA data, a total of 402 school districts would be eligible to receive the proposed minimum summer school allocation, resulting in a maximum added cost of \$1.8 million. The Governor's budget proposes to fund these costs from the current base appropriation for supplemental summer school.

Our analysis indicates that the proposed Budget Bill language is reasonable, and we recommend that it be approved.

Our analysis also indicates, however, that despite the proposed change in supplemental summer school funding for small schools, the amount proposed by the Governor for supplemental summer school programs is likely to exceed the programs' actual funding requirements. This is because the budget assumes that *all* of the state's 1,028 school districts will operate summer school programs in 1986-87. In 1984-85, however, only 600 districts operated such programs, claiming state funding of \$23.5 million. This amount was \$16.1 million less than the total funding appropriated for these programs.

The State Department of Education indicates that data on the participation of school districts in supplemental summer school programs in 1985-86 will be available in February 1986, thereby permitting a more accurate estimate of funding requirements for 1986-87. Accordingly, we withhold

**DEPARTMENT OF EDUCATION—Continued**

recommendation on the amount requested for supplemental summer school programs, pending review of data on actual participation rates.

**e. Continuation High Schools**

*We withhold recommendation on \$110,400,000 requested from the General Fund for school apportionments, pending submission of continuation high school expenditure data by the State Department of Education.*

Current law requires unified and high school districts to maintain one or more continuation high schools (or classes) for students, age 16 and over, as an alternative to the regular instructional program. Continuation high schools are intended: (1) to provide students with academic or behavioral problems an opportunity to complete the required academic course of study, and (2) to allow students to work while attending school.

Funds for continuation high schools are allocated to school districts on the basis of the average daily attendance (ADA) in these schools, multiplied by each district's revenue limit. Districts which established continuation high schools subsequent to 1978-79 receive an additional amount of funds pursuant to a special "small school" funding formula.

**Funding.** In the Governor's Budget, funding for continuation high schools is contained within the amount proposed for general school apportionments. We estimate that, of the total amount requested for school apportionments, approximately \$110.4 million is proposed for continuation high schools. Of this amount, \$102 million (92 percent) reflects revenue limit funds, and the remaining \$8.4 million (8 percent) is associated with revenues that would be apportioned under the small school funding formula.

**Expenditure Data Needed.** Under the terms of current law, school districts receive revenues for continuation high schools in the form of general purpose aid. Consequently, there is no requirement that districts actually spend revenues generated by attendance in continuation high schools on these programs.

In order to allow the Legislature to review the funding needs of continuation high schools, SB 813 (Ch 498/83) required school districts to report annually to the State Department of Education on expenditure levels in these schools. Our review indicates, however, that a significant number of districts have not been providing the state with this data. In 1983-84, for instance, 113 districts, or 34 percent of all districts operating continuation high schools, did not report their expenditures.

Without complete expenditure data, the Legislature has no way of knowing whether it is providing school districts with an appropriate amount of funds for continuation high schools. It is possible that, in some cases, the state may be providing school districts with revenues in excess of what is needed to maintain their continuation programs.

The State Department of Education is now in the process of collecting expenditure data from districts that have failed to report this data in the past. The department indicates that it will provide the Legislature with a complete set of expenditure figures by the time of budget hearings.

Because we need this data in order to review the budget proposal, we withhold recommendation on funding for continuation high schools pending receipt of the data.



**f. Apportionment Offset for "Basic Aid" Districts—Control Section 24.20*****We recommend approval.***

The Governor proposes language in Control Section 24.20 limiting the amount of state aid provided to so-called "basic aid" districts. Specifically, the Governor proposes that, to the extent a basic aid district's local property tax revenues grow by an amount that exceeds the revenue limit COLA provided to similar districts, the amount of State School Fund aid provided to the district shall be reduced by an equivalent amount. In no case, however, would a district receive an amount from the State School Fund that was less than the amount required by the California Constitution.

The budget estimates that the approval of this control section would reduce the requirements for state apportionment aid by \$5 million, for an equivalent General Fund savings. (The proposed appropriation for school apportionments assumes enactment of this control section.)

In order to fully understand the Governor's proposal, one must first understand how funding is provided to basic aid districts.

***Funding for Basic Aid Districts.*** Under California's system of financing schools, general purpose aid is allocated to schools through a "revenue limit" system. Each school district has a specified revenue limit per unit of average daily attendance (ADA) which is based, in part, on the district's historical level of expenditures.

The school finance system guarantees each school district an amount of general purpose funds equal to its revenue limit times its ADA, with this amount financed through a combination of local property taxes (together with other, specified local revenues) and state aid provided by a General Fund appropriation to the State School Fund. Article IX, Section 6 of the California Constitution further provides that each school district shall receive from the State School Fund an amount equal to the greater of \$120 per (prior-year) ADA or \$2,400.

School districts also receive state funds for special purposes through so-called "categorical" programs. 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. Funding for a variety of categorical programs (including special education, home-to-school transportation, and the School Improvement Program) is also provided by General Fund appropriations to the State School Fund.

For the vast majority of school districts, local property tax revenues are not sufficient to fund the revenue limit guarantee amount. As a result, the state apportions to these districts sufficient funds to make up the difference between the guarantee and the amount of property taxes received by the district. These apportionments are counted towards the state's obligation to provide the amounts required by Article IX, Section 6, of the Constitution.

For 31 school districts (representing less than 1 percent of statewide ADA), however, the amount of local property tax revenues received exceeds the revenue limit guarantee. Not only does the state *not* recapture any of the excess amount; it *adds* to the excess by providing these 31 districts with an additional windfall in the form of state "basic aid" equal to the greater of \$120 per ADA or \$2,400. As a result, the revenue limit guarantee *bears no relationship* to the amount of general purpose funds actually available to these basic aid districts.

***Governor's Proposal.*** Control Section 24.20 would limit the amount of State School Fund aid provided to basic aid districts. Specifically, the control section provides that, to the extent a basic aid district's local prop-

**DEPARTMENT OF EDUCATION—Continued**

erty tax revenues grow by an amount that exceeds the revenue limit COLA provided to similar districts, the amount of State School Fund aid provided to the district shall be reduced. The reduction would be made to the district's special "basic aid" apportionment and, if necessary, to any categorical aid funds provided through the State School Fund, in an amount equal to the amount of "excess" local revenue growth. In no event, however, would a district receive an amount from the State School Fund that is less than the amount required by the Article IX, Section 6, of the California Constitution.

Our analysis indicates that the Governor's proposal is a reasonable one that would reduce wealth-related disparities in school finance. By allowing basic aid districts—those districts whose local property tax revenues already exceed their revenue limit guarantees—to retain excess local property tax revenue growth, current policy tends to further exacerbate wealth-related disparities in educational spending per pupil—and is thus contrary to the requirements of the *Serrano* decision. This drawback is particularly evident when one considers that in the case of a non-basic aid district, any growth in property tax revenues which exceeds the revenue limit COLA results in a dollar-for-dollar reduction in state aid. The Governor's proposal would merely treat the 31 basic aid districts in the same manner.

For this reason, we recommend approval of Control Section 24.20.

As we noted in last year's *Analysis*, the provision of a separate amount as "basic aid" is not required by the State Constitution. The Legislative Counsel has concluded (Opinion number 18721) that the constitutional requirement may be satisfied so long as the state provides to each district at least \$120 per pupil (or \$2,400) in state aid of any type—including aid provided under categorical programs—which flows through the State School Fund.

**2. Urban Impact Aid and Meade Aid (Items 6100-206-001 and 6100-207-001)*****We recommend approval.***

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 settings. In 1985-86, 125 districts will receive Urban Impact Aid. Of these, 19 are unified districts which have received Urban Impact Aid since 1977. The remaining 106 consist of 12 high school districts and their feeder elementary districts which first received Urban Impact Aid in 1984-85, pursuant to SB 813 (Ch 498/83). Over 250 districts currently receive Meade Aid. Fifty-six districts, including 14 unified and 42 non-unified districts, receive support from both programs.

**Urban Impact Aid.** The budget proposes \$76,954,000 from the General Fund for Urban Impact Aid in 1986-87, \$1,509,000 more than the current-year funding level. The increase provides for a 2 percent COLA.

**Meade Aid.** The budget proposes \$10,539,000 from the General Fund for Meade Aid in 1986-87, \$207,000 more than the current-year funding level. The increase provides for a 2 percent COLA.

Our analysis indicates that these programs are serving their intended purpose and, accordingly, we recommend that the amount requested for them be approved as budgeted.

**3. Small School District Aid (Item 6100-101-001(c))*****We recommend approval.***

Small School District Aid provides additional general state aid to school districts which (1) have fewer than 2501 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 State Department of Education reports that in 1984-85, 552 districts (54 percent of all districts statewide) received Small School District Aid.

The budget proposes \$20,289,000 for Small School District Aid in 1986-87. This amount provides for a 2 percent cost-of-living adjustment. Our analysis indicates that this program is serving its intended purpose and, accordingly, we recommend that the amount requested be approved as budgeted.

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

The state apportions funds to the county offices of education for their use in providing the following services to school districts:

- **"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 audio visual services, staff development, and curriculum development.
- **Business Services.** These services consist of payroll preparation, expenditure audits, maintenance of financial records, budget approval, collection and disbursement 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 \$188.3 million in 1985-86 to \$207.9 million in 1986-87, an increase of 10.4 percent. The budget reflects (1) a \$7.6 million increase to fund additional ADA, (2) an \$11.4 million increase to provide a 5.78 percent cost-of-living adjustment (COLA), and (3) a \$500,000 increase to partially fund equalization of revenue limits for juvenile hall programs. Of the total, \$102.8 million would come from a General Fund appropriation—an increase over current-year expenditures of \$12.0 million or 13.2 percent.

**Juvenile Hall Program Equalization is Underfunded**

***We recommend that the Legislature direct the Department of Finance and the Department of Education to clarify the reasons for, and the likely consequences of underfunding the amount required for equalization of juvenile hall funding by \$1.7 million in 1985-86 and \$3.1 million in 1986-87.***

The Governor's budget proposes that \$77.4 million be made available to fund 44 county-operated juvenile hall programs. These programs are funded on the basis of separate revenue limits per ADA. Historically, the revenue limits for individual programs have varied widely. In 1984-85,

**DEPARTMENT OF EDUCATION—Continued**

these limits ranged from \$2,067 per ADA in Del Norte County to \$7,299 in Siskiyou County.

Assembly Bill 75 (Ch 1597/85) authorizes the Superintendent of Public Instruction to provide equalization adjustments to those juvenile hall programs which had 1984-85 revenue limits per ADA that were below the statewide computational average for all juvenile hall programs. The bill provides that in each of the years 1985-86 through 1987-88, the revenue limit of each eligible district shall be increased by one-third of the difference between (1) the statewide computational average revenue limit per ADA in 1984-85 and (2) its revenue limit per ADA in the same year.

We estimate the cost of fully funding the juvenile hall equalization provisions of AB 75 to be \$1.7 million in 1985-86, \$3.6 million in 1986-87, and \$5.7 million in 1987-88 and annually thereafter.

AB 75 did not contain an appropriation. Instead, the equalization funding for 1985-86 was appropriated in a companion measure—Senate Bill 383. This bill, however, was vetoed by the Governor. As a result, county offices face a potential \$1.7 million apportionment deficiency in the current year.

The Governor's Budget fails to include in the base revenue limit for 1986-87, the \$1.7 million equalization adjustment authorized by AB 75 for 1985-86. In addition, proposed language in the 1986 Budget Bill limits the funding provided for juvenile hall program equalization to \$500,000, although the bill provides no alternative formula for allocating equalization funding in lieu of the provisions in AB 75. Consequently, our analysis indicates that the budget underfunds the total cost of juvenile hall program equalization in 1986-87 by \$3.1 million.

Accordingly, we recommend that during budget hearings, the Legislature direct the Department of Finance and the Department of Education to discuss the reasons for, and the consequences of underfunding juvenile hall program equalization by \$1.7 million in 1985-86 and \$3.1 million in 1986-87.

**5. Lottery Revenues**

The California State Lottery Act—Proposition 37 of 1984—provides that a portion of lottery revenues shall be allocated to public school districts serving grades K-12 and community colleges, the University of California (UC), and the California State University (CSU). Chapter 1517, Statutes of 1985 (SB 333), amended the law to provide for allocations to the Hastings College of the Law, the California Maritime Academy, and classes operated by county superintendents of schools, as well. These funds are

**Table 14**  
**Distribution of Lottery Revenues**  
**1985-86 and 1986-87**  
**(dollars in millions)**

Segment	1985-86		1986-87	
	Amount	Percent	Amount	Percent
K-12 Education .....	\$241.8	80.7%	\$330.9	80.7%
Community colleges .....	37.0	12.3	50.3	12.3
California State University .....	13.6	4.5	18.5	4.5
University of California .....	7.5	2.5	10.2	2.5
Hastings/CMA .....	0.1	—	0.1	—
Totals.....	\$300.0	100.0%	\$410.0	100.0%

distributed based on enrollment (average daily attendance (ADA) in the case of school districts and full-time equivalent (FTE) in the case of UC and CSU).

Table 14 shows the estimated distribution of lottery revenues for public education as displayed in the Governor's Budget.

Our review of these estimates indicates that:

- The estimates are probably too low. The estimate for 1986-87—\$410 million—assumes that total lottery sales will be \$1.2 billion. If LOTTO games come on line within a reasonable period of time during 1986-87, total revenue probably will be considerably higher.
- A more realistic estimate of lottery revenue should be available when the Department of Finance publishes the "May Revise" revenue estimate.
- The lottery is a significant source of revenue for K-12 and community college districts. Even using the budget estimate, the amount going to each segment in 1986-87 is equivalent to a cost-of-living adjustment of approximately 3 percent. On a statewide basis, the lottery will provide approximately \$75 per student (K-12 and higher education) in the budget year.
- The budget does not require that the lottery funds be spent in any particular way. It does contain an expenditure plan for UC and CSU, but this plan is not binding. The UC plan earmarks \$9 million for instructional computing and \$1.2 million for instructional equipment. The CSU plan earmarks \$11.3 million, primarily for instructional equipment and computing; the remaining \$7.2 million, however, has not been allocated for a specific purpose. We have no information on how schools and community colleges plan to use the revenue.
- There is no indication that lottery funds are supplanting the regular allocation of state funds to the state's education program.

#### **Lottery Fund Enrollment Calculation**

*We recommend that the Legislature enact legislation to revise the way enrollment is calculated in determining the distribution of lottery revenues.*

The *Supplemental Report to the 1985 Budget Act* directs the Legislative Analyst to "conduct a study to determine the appropriate method for calculating enrollment (FTE/ADA), as used for the distribution of lottery funds among the K-12 and higher education segments." Based on our review, we identify the following issues for the Legislature to consider:

**State Special Schools.** The state operates six special schools for handicapped pupils (grades K-12). These schools offer residential and nonresidential programs for students who are deaf, blind, neurologically handicapped, and multihandicapped. The schools serve approximately 955 students who are deaf and 115 students who are blind, and provide diagnostic assessment services to approximately 470 students with neurological handicaps.

Because the Special Schools are not funded on the basis of ADA and are administered by the State Department of Education (SDE), rather than by a school district or county superintendent of schools, the State Controller's office has determined that, under current law, enrollment in these schools may not be counted for purposes of lottery revenue distribution.

**DEPARTMENT OF EDUCATION—Continued**

This enrollment, however, is comparable to—and does not duplicate—enrollment in classes for handicapped pupils in programs operated by school districts and county superintendents. Consequently, we recommend that the Legislature enact legislation to provide that the ADA equivalent of State Special School enrollment be recognized in the distribution of lottery revenues.

***Summer School and Apprenticeship Programs.*** State funding is provided for K-12 summer school instruction under specified circumstances, and for apprenticeship programs in secondary schools and community colleges. Because these courses are funded on the basis of a specified rate of reimbursement per hour of attendance, rather than ADA, the Controller has determined that this enrollment may not be counted for lottery revenue distribution.

This appears to be a technical issue arising from the manner in which enrollment is defined for reporting and funding purposes. We are not aware of any policy rationale for excluding this enrollment from the lottery distribution formula. Consequently, we recommend that the Legislature enact legislation providing that the ADA equivalent of state-funded summer school and apprenticeship program enrollment be recognized in the distribution of lottery revenues.

***Enrollment Not Eligible for State Funding.*** In Adult Education and summer school programs, current law limits state funding to enrollment in specified types of courses. Current law also limits state funding to specified levels of annual enrollment growth in community colleges, Adult Education programs, and Regional Occupational Centers and Programs (ROC/Ps). Community colleges and school districts, however, may exceed these limits by funding the additional enrollment from local resources. Because this nonstate-funded ADA is included in the enrollment reports, the Controller has determined that, under current law, it shall be included in the lottery distribution calculation.

Including this enrollment in the total for lottery distribution purposes but not for state apportionment purposes may appear to be inconsistent. State law, however, does not restrict the use of lottery revenues to programs or pupils funded from state apportionments. Moreover, excluding a specific category of ADA from the lottery calculations on the basis of funding source does not appear to be justified from an analytical standpoint. Consequently, we recommend that this enrollment continue to be recognized in the distribution of lottery revenues.

***Calculation of ADA and FTE.*** Community colleges do not define a unit of ADA in exactly the same way that the K-12 districts do. The two definitions, however, are generally comparable.

The more significant difference involves the manner in which an FTE is defined by UC and CSU. For budgeting purposes, UC calculates an FTE as the equivalent of 12 units per semester for graduate students (Masters degree level), whereas CSU uses 15 units per semester. The Controller has determined that the lottery distribution shall be based on the existing segmental definitions of FTE enrollment, irrespective of any apparent inconsistencies between the segments.

We believe the Controller's position on this issue is sound.

***Nonresident Enrollment.*** Nonresident students must pay tuition to attend the public higher education institutions in California. Because the community colleges, UC, and CSU include these students in their reported enrollment (ADA or FTE), the Controller has determined that such en-

rollment shall be included in the lottery revenue distribution calculation.

This enrollment is treated differently for normal budgeting purposes. Nonresident ADA in the community colleges is not eligible for state apportionments. On the other hand, nonresident FTE in the four-year public universities is funded on the same basis as regular FTE (nonresident students pay tuition to reimburse the state for the instructional component of their educational costs).

We see no basis for carrying over this distinction to the distribution of lottery revenues. Accordingly, we recommend that community college nonresident ADA continue to be treated on the same basis as nonresident FTE at the four-year segments, for purposes of the lottery.

**Fiscal Impact of Recommendations.** We do not have the data needed to provide a precise estimate of how our proposals would affect the distribution of lottery revenues. Nevertheless, Table 15 provides a rough estimate of the impact using 1984-85 enrollment data and the budget's projection of lottery revenues in 1986-87. (We do not include the California Maritime Academy or Hastings College of the Law in the table because the impact of our recommendations on these institutions would be negligible.) The table shows that, under these assumptions, there would be a shift of \$371,000 to the K-12 segment from the community colleges (\$124,000), the California State University (\$159,000), and the University of California (\$88,000). For each segment, the redistribution amounts to less than 1 percent of the segment's total allocation of lottery revenues.

**Table 15**  
**Impact of Legislative Analyst's Recommendations on**  
**Lottery Fund Enrollment Calculation**

	<i>K-12</i>	<i>CCC</i>	<i>CSU</i>	<i>UC</i>	<i>Totals</i>
1984-85 ADA/FTE .....	4,331,489	689,656	242,752	133,693	5,397,590
LAO Proposed Changes:					
State Special Schools .....	1,076				1,076
Summer School .....	39,500				39,500
Apprenticeship Program .....	2,083	4,357			6,440
Total Proposed Change.....	42,659	4,357			47,016
Revised ADA/FTE.....	4,374,148	694,013	242,752	133,693	5,444,606
Estimated Funding Impact (1986-87): <sup>a</sup>					
Current Law .....	\$330,900,000	\$50,300,000	\$18,500,000	\$10,200,000	\$409,900,000 <sup>b</sup>
LAO Proposal .....	331,271,000	50,176,000	18,341,000	10,112,000	409,900,000
Impact of LAO Proposal	+371,000	-124,000	-159,000	-88,000	

<sup>a</sup> Assumes Governor's Budget estimated lottery revenues for 1986-87 (estimated distribution not based on 1984-85 enrollment). Actual distribution will vary, depending upon levels of 1986-87 lottery revenues and 1986-87 enrollment.

<sup>b</sup> Does not include approximately \$100,000 for Hastings College of the Law and the California Maritime Academy.

## Reports on Lottery Funds—Control Section 24.60

### *We recommend approval.*

Control Section 24.60 requires the Superintendent of Public Instruction, Regents of the University of California, Directors of Hastings College of the Law, Trustees of the California State University system, Board of Governors of the California Maritime Academy, and community college

**DEPARTMENT OF EDUCATION—Continued**

districts through the Chancellor to report to the Governor and the Legislature by September 1, 1987, the amount of lottery funds which each entity received and the purposes for which the funds were expended in the 1986-87 fiscal year, including administrative costs, and proposed expenditures and purposes for expenditure for the 1987-88 fiscal year.

We believe that this report requirement would provide useful information to the Legislature as it reviews the state's overall fiscal plan. We also note that this section continues current legislative policy, and accordingly we recommend approval.

**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 relating to classroom instruction, (2) programs relating to teaching and administration, (3) Special Education, (4) vocational education programs, (5) compensatory education programs, and (6) other specialized education programs.

**Sunset Review Process Needs Improvement**

*We recommend that the Legislature amend the sunset review process for categorical education programs to establish a procedure for considering and acting upon recommendations made by the State Department of Education, the Legislative Counsel, the Legislative Analyst, and designated sunset review advisory committees. We further recommend that the Legislature change the sunset dates for the instructional materials program and the demonstration programs in reading and mathematics to June 30, 1987, to facilitate legislative review.*

The sunset review process was established by Chapter 1270, Statutes of 1983, and amended by Chapters 482 and 1318, Statutes of 1984. Under this process, specified categorical programs are assigned “sunset dates,” on which they cease to be operative unless the Legislature, after a specified review process, enacts legislation to continue them.

Four reports are required as part of the sunset review process. First, the legislation requires that the following three entities simultaneously submit separate reports directly to the Legislature approximately 22 months prior to each program's sunset date:

- **State Department of Education (SDE)**—this report must include, among other things, a description and history of the program; identification of unmet needs; and findings regarding the appropriateness of formulas for identifying and allocating funds to target students, the effectiveness of the program, the need for the program, and the appropriateness of existing administrative procedures and controls.
- **Legislative Counsel**—this report must include a summary of the law regarding the program and a summary of related federal law and regulations and state or federal court decisions that place constraints on the Legislature's alternatives regarding the program.
- **Sunset Review Advisory Committees**—these temporary committees, which are composed of school administrators; school board members;



nonadministrative school employees; and parents, students, or community members, are required to submit a report covering their findings regarding the need for and effectiveness of the program; the appropriateness of identification and allocation formulas; the characteristics of the target population served; and the appropriateness of local control, state-level involvement, and SDE administration.

In addition, the legislation requires the Legislative Analyst to review the report submitted by the SDE and, within 90 days, submit a report to the Legislature containing his findings, comments, and recommendations.

Under the provisions of the sunset review statutes, therefore, only one of the four entities (the Legislative Analyst) is able to review and comment upon the work of the other entities prior to submitting its report. (The temporary sunset review advisory committees operate independently of the other three entities required to submit reports and, while they do receive staff support from the SDE, the committees' findings and recommendations are entirely their own.) The statutes, however, do not specify what legislative body is to hear and act on the reports.

To date, the following two categorical education programs have been reviewed pursuant to this process established by the Legislature:

- Instructional materials; and
- Demonstration Programs in Reading and Mathematics.

Two other programs, Local Staff Development and Teacher Education and Computer Centers (TECCs), are scheduled to sunset on June 30, 1986, but were not subject to sunset reviews because they had not been in operation long enough to permit a meaningful evaluation. (We recommend elsewhere in this analysis that the sunset dates of these programs be extended to June 30, 1990, in order to provide sufficient time for an evaluation to be conducted.)

**Flaws in the Process.** The *Analysis of the 1985-86 Budget Bill* included two recommendations that grew out of our sunset review report on the Demonstration Programs in Reading and Mathematics. When these recommendations were presented to the fiscal subcommittees considering the SDE's budget, the department argued that the recommendations should not be heard. It maintained that discussing the recommendations during budget hearings would be "premature," given the pending sunset review of these programs. The budget committees agreed with the SDE, and no action was taken on the recommendations during budget hearings.

There was, however, no sunset review of these programs. In fact, it would appear that SDE wanted no part of such a review. Instead of sponsoring a bill that could serve as the focal point for the Legislature's review of the demonstration programs, SDE chose to reauthorize the programs by securing an amendment to Assembly Bill 982 (Chapter 1546, Statutes of 1985), an otherwise "technical" bill. (The SDE has indicated it will seek to reauthorize the instructional materials program in a similar way.)

Clearly, this is not what the Legislature had in mind when it established the sunset review process by enacting Chapter 1270. The decision to continue a program and the policies that go with it is not a technical matter. Otherwise, the Legislature would not have called for four separate reports on each sunsetted program. The SDE's approach to reauthorization makes a mockery of the process and thwarts the Legislature's ability to perform its oversight role.

**Recommendation.** In order to enhance the effectiveness of the sun-

**DEPARTMENT OF EDUCATION—Continued**

set review process, we recommend that the Legislature amend Section 62006 of the Education Code to establish a procedure for legislative review and consideration of the four sunset review reports. We further recommend that Section 62000 of the Education Code be amended to change the sunset dates for the instructional materials program and demonstration programs in reading and mathematics to June 30, 1987, to facilitate legislative review of these programs pursuant to the sunset review process.

**School-Based Program Coordination**

**Background.** The School-Based Program Coordination Act (Ch 100/81) allows schools and school districts to coordinate one or more of 11 categorical programs at the school site level. The major programs which may be coordinated through the act's provisions include:

- Special Education,
- Economic Impact Aid,
- School Improvement Program,
- Miller-Unruh Reading Program,
- Gifted and Talented Education,
- Educational Technology, and
- Local Staff Development Programs.

The act allows schools to combine materials and staff funded by some or all of the various categorical programs, without requiring that resources from each program be used exclusively to provide services to students who are specifically identified as eligible for that program.

In order to participate under the act, a school must establish a school site council composed of parents, staff, and (if appropriate) students. The school site council plans how the coordinated resources will be used at the school.

Current law requires the Legislative Analyst to report annually in the *Analysis of the Budget Bill* regarding the implementation of programs operated pursuant to the School-Based Program Coordination Act.

**Report on Implementation.** The 1985-86 school year is the fourth full year of the School-Based Program Coordination Act. The State Department of Education (SDE) indicates that, during the current year, 372 schools in 129 districts are combining some categorical educational services using the act's provisions. This is a reduction of 140 schools (38%) and 62 districts (48%) from the number of participants *reported* for 1984-85.

The SDE advises that the number of schools and districts reporting participation in the program in the current year probably is a more accurate representation of actual program participation than the numbers reported in prior years. This is because, in the past, districts were required to merely check a box on their consolidated application form for categorical programs in order to indicate participation. The department found that, in many cases, districts were unaware of the program requirements and had inadvertently indicated participation in the program on their applications. This year the SDE increased its administrative efforts to ensure accurate reporting of program participation.

Chapter 1270, Statutes of 1983, repealed requirements that school districts submit to SDE school site plans for the implementation of school-based coordinated programs. Instead, plans are reviewed and maintained by each local school district, and are reviewed by SDE only (1) during on-site visits and compliance reviews, which are conducted in each district

every three years, and (2) when there is a complaint regarding any of the categorical programs at a particular school. As a result of this change in the law, neither we nor SDE have been able to obtain any comprehensive, detailed information regarding the implementation of school-based coordinated programs. Consequently, the information available does not allow us to determine the effects of school-based program coordination on those children who are specifically eligible to receive supplementary educational services under the categorical program which may be included in a coordinated program.

### 1. Programs Relating to Classroom Instruction

Table 16 summarizes local assistance funding from the General Fund and state special funds for the ten programs relating to classroom instruction. In total, the budget requests \$374 million for these programs in 1986-87—an increase of \$16.8 million, or 4.7 percent, over current-year expenditures. Funding for individual programs will be discussed later in this analysis.

**Table 16**  
**K-12 Education**  
**Support for Programs Relating to Classroom Instruction**  
**Local Assistance**  
**1984-85 through 1986-87**  
**(dollars in thousands)**

Programs	Actual 1984-85	Est. 1985-86	Prop. 1986-87	Change from 1985-86	
				Amount	Percent
School Improvement Program .....	\$187,931	\$214,531	\$225,716	\$11,185	5.2%
Education Improvement Incentive Program.....	14,400	14,300	14,010	-290	-2.0
Instructional Materials .....	81,895	87,270	94,527	7,257	8.3
Demonstration Programs in Reading/ Math.....	3,993	4,240	4,485	245	5.8
High School Pupil Counseling .....	6,600	7,337	7,679	342	4.7
Environmental Education .....	394	604	604	—	—
Intergenerational Education .....	165	165	165	—	—
Curriculum on Birth Defects .....	—	500	500	—	—
Educational Technology Program .....	12,790	27,865	26,141	-1,724	-6.2
Institute of Computer Technology .....	318	468	273	-195	-41.7
Totals .....	\$308,486	\$357,280	\$374,100	\$16,820	4.7%
Funding Source:					
General Fund .....	\$308,092	\$356,676	\$373,496	16,820	4.7%
Environmental License Plate Fund .....	394	604	604	—	—

#### 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. SIP grants are used for a variety of purposes, such as for teacher aides, staff development, and/or curriculum development. Funds may not be used to employ regular classroom teachers or for capital outlay.

Schools are selected for participation in SIP on the basis of applications submitted to the State Board of Education. Funds are allocated to schools with approved programs on the basis of enrollment in grades K-6, and on the basis of average daily attendance (ADA) in grades 7-12.

**DEPARTMENT OF EDUCATION—Continued**

In the budget for 1985-86, the Governor indicated that he was providing an additional \$9.3 million to continue the equalization and expansion of SIP in grades K-6, as contemplated by SB 813. According to the budget document, this funding represented the second year of an anticipated three-year plan for SIP expansion and equalization.

We pointed out in last year's *Analysis* that the proposed funding level was not sufficient to achieve the Governor's objectives. Subsequently, the Department of Finance proposed—and the Legislature approved—an amendment to the budget to provide a total of \$14.9 million for SIP equalization and expansion in 1985-86.

Contrary to what the 1985-86 budget promised, the Governor's Budget for 1986-87 does not include funding for further equalization and expansion of SIP. In fact, the budget does not even provide funding for anticipated enrollment growth in existing SIP schools, thereby underfunding of the program's *baseline* requirements.

**No Funding for Enrollment Growth**

*We recommend that the Legislature direct the Department of Finance to explain how it intends to fund a potential \$4.8 million deficiency in the School Improvement Program.*

As shown in Table 17, the Governor's Budget proposes to appropriate \$192,925,000 for grade K-6 SIP and \$32,791,000 for grade 7-12 SIP in 1986-87. These amounts represent increases over current-year funding of \$10,542,000 (5.78 percent) for grades K-6 and \$643,000 (2 percent) for grades 7-12. (These increases are provided in the COLA item, 6100-226-001.)

Funding for the School Improvement Program is provided on the basis of average daily attendance (ADA) in participating schools. In order to maintain existing levels of service from year to year, therefore, funding needs to be adjusted to account for increases in ADA. This, in fact, has been the practice in previous budgets, for all grade levels, and is *statutorily required* in grade K-6 SIP. The budget for 1986-87 proposes to continue this practice in the budget year for other programs that are funded on the basis of enrollment, but it does not propose a similar adjustment for SIP. Instead, it requests funds merely to continue the current-year funding level and provide a cost-of-living adjustment (COLA).

**Table 17**  
**K-12 Education**  
**School Improvement Program Funding**  
**1984-85 through 1986-87**  
**(dollars in thousands)**

Grade Level	Actual 1984-85	Est. 1985-86	Prop. 1986-87	Change From 1985-86	
				Amount	Percent
K-6.....	\$157,020	\$182,383	\$192,925	\$10,542	5.8%
7-12 .....	30,911	32,148	32,791	643	2.0
Totals.....	\$187,931	\$214,531	\$225,716	\$11,185	5.2%

Our review indicates that enrollment will increase by an estimated 2.51 percent in SIP elementary schools and by 1.95 percent in SIP secondary schools. Accordingly, funding for the program would have to increase by \$4.6 million and \$627,000, respectively, in order to maintain the existing

funding rate per pupil in current SIP schools. Increasing the base by these amounts would also increase the size of the COLA by \$277,000. Thus, we estimate that by failing to account for enrollment increases in SIP schools, the budget would underfund the existing SIP program by a total of \$5.5 million in 1986-87.

Current law does not require that the rate of funding per pupil in grades 7-12 SIP be annually increased by a COLA. Discretionary COLAs have been provided in the past, however, and the Governor's Budget proposes to provide a discretionary COLA in the budget year. The total level of funding proposed for SIP in grades 7-12, therefore, would be sufficient to provide the statutorily-required level of funding, and would not result in a deficiency in the funding for SIP entitlements in these grades.

Our analysis indicates, however, that the Governor's proposal not to provide funding for expected enrollment increases in grade K-6 SIP *would* result in a deficiency. This is because the law requires that the rate of funding per pupil in these grades be increased each year by the same percentage increase made in base revenue limits for unified school districts with over 1,500 ADA. If funding is not adjusted for enrollment increases, therefore, the required level of funding per pupil will not be provided.

Accordingly, we recommend that the Legislature direct the Department of Finance to explain how it intends to fund an estimated deficiency of \$4.8 million in grade K-6 SIP.

#### **b. Education Improvement Incentive Program (Item 6100-107-001)**

The Education Improvement Incentive Program (EIIP), created by SB 813, is designed to determine whether or not fiscal incentives can assist in improving the academic performance of schools. The program, which is currently in its second year of operation, provides incentive funds of up to \$400 per pupil to participating schools whose scores on the 12th grade administration of the California Assessment Program (CAP) test show an improvement over their prior year's scores. 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.

In 1984-85, 583 schools received incentive awards. The size of the award per school ranged from \$111 to \$140,818, and averaged \$24,742. The average award per pupil tested was \$152.

**Funding History.** The Education Improvement Incentive Program (EIIP) was funded initially in the 1984 Budget Act. Although \$15 million was appropriated for 1984-85, \$600,000 was later reappropriated for another purpose, leaving \$14.4 million available for the program in that year.

The 1985 Budget Act appropriated \$15 million for EIIP in 1985-86. Once again, however, a portion of these funds were reallocated for other purposes. As a result, a total of \$14.3 million is actually available for the EIIP in the current year.

**Governor's Proposal.** The budget proposes to appropriate \$15 million for the EIIP program in 1986-87. The Budget Bill, however, contains language authorizing the following deductions from this amount:

- \$300,000 for the second year of the college admissions test preparation pilot project, and
- Up to \$690,000 for support of the California Assessment Program.

Thus, a minimum of \$14,010,000 would be made available for the EIIP in 1986-87. Of this amount, \$225,000 would be used for grade 12 test proctor-

**DEPARTMENT OF EDUCATION—Continued**

ing and administration (as required by the program), and the remaining \$13,785,000 would be used for incentive awards to schools.

**Report on Distribution of EIIP Funds**

The *Supplemental Report of the 1985 Budget Act* required the State Department of Education (SDE) to submit a report to the legislative fiscal committees by November 15, 1985, describing the characteristics of school districts that have received EIIP funds.

The SDE submitted the required report on December 2, 1985. The report concludes that:

- among *districts* receiving EIIP funds, the district's revenue limit, its total enrollment, and its geographic location were not significantly related to the size of the awards received by its schools; and
- among *schools* receiving EIIP funds, the size of the school's enrollment, its parental education level, and the number of its students who are of Asian descent were *inversely* related to the size of the awards. That is, the higher a school scored on each of these factors, the smaller award that it was likely to receive.

There is a fundamental limitation to the methodology utilized by SDE in conducting its study. Specifically, we find that the department employed a type of analysis which assumes that each factor is *independently* related to the size of the award received by a school. It is more likely, however, that the various factors studied are themselves *interrelated*. Consequently, we find that the department's findings are of limited value, if any.

**Impact of the EIIP on School Behavior**

*We recommend that the Legislature adopt Budget Bill language prohibiting the allocation of EIIP funds to schools that conduct programs to prepare students specifically for the CAP test, because such programs are in violation of current law.*

We analyzed several schools that won EIIP awards in order to determine what strategies (if any) they employed to improve their CAP performance. We found that some schools have attempted to align their curricula more closely with the subject areas covered by CAP. The most common effect of the EIIP, however, is that, because of the cash incentive, students, teachers, and administrators are "taking the CAP test seriously for the first time."

Previously, many students took little interest in the CAP test because they do not receive individual performance scores and do not need to pass the test in order to graduate. Similarly, some teachers and administrators reported that they previously viewed the test as an encroachment upon instructional time and a nuisance. The cash award has changed these attitudes.

Our review also indicates that some schools have taken even more direct steps to improve students' CAP scores. These steps include administering practice tests (with actual test items from previous years) and using commercially-developed study materials. This leads us to question how much of the improvement in CAP scores attributable to the program reflects improved test-taking skills rather than increased subject-matter knowledge.

Furthermore, we note that practices such as these are in violation of

Section 60610 of the Education Code, which prohibits schools from conducting "any program of specific preparation of the pupils within the district for the testing program as such or the particular test used therein." Prior to initiation of the EIIP, this provision was difficult to enforce because there were no sanctions imposed on districts which engage in such practices. The EIIP, however, provides a means to enforce more effectively this provision of law. With this in mind, we recommend that the Legislature adopt the following Budget Bill language in Item 6100-107-001 prohibiting the allocation of EIIP funds to districts that conduct programs to prepare students for taking the CAP test:

"No funds appropriated in this item shall be apportioned to a school district or county office of education unless the superintendent of that district or county office has first certified to the Superintendent of Public Instruction that none of the schools under his or her jurisdiction has conducted any test preparation programs that are prohibited by Section 60610 of the Education Code. Further, funds shall be withdrawn from districts which are found to be in violation of Section 60610 of the Education Code."

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

*We recommend approval.*

The California Constitution requires the state to adopt textbooks for use in grades K-8 and supply them to the schools without charge. To supplement this program, SB 813 (Ch 498/83) provided state funding for the purchase of textbooks for grades 9-12. During 1985-86, state aid for the purchase of textbooks was appropriated at a rate of \$23.82 per pupil in grades K-8 and \$16.20 per pupil in grades 9-12.

Table 18 shows instructional materials, local assistance and state operations funding for the prior, current, and budget years.

**Table 18**  
**K-12 Education**  
**Funding for Instructional Materials**  
**1984-85 through 1986-87**  
**(dollars in thousands)**

	<i>Actual</i> 1984-85	<i>Est.</i> 1985-86	<i>Prop.</i> 1986-87	<i>Change From</i> <i>1985-86</i>	
				<i>Amount</i>	<i>Percent</i>
State Operation					
General Fund .....	\$1,536	\$1,897	\$1,970	\$73	3.8%
Special Deposit Fund .....	99	—	—	—	—
State Instructional Materials Fund .....	-39	—	—	—	—
Reimbursements .....	—	128	133	5	3.9
Subtotals .....	\$1,596	\$2,025	\$2,103	\$78	3.9%
Local Assistance					
General Fund (grades K-8) .....	\$62,246	\$66,120	\$71,790	\$5,670	8.6%
General Fund (grades 9-12) .....	19,449	21,150	22,737	1,587	7.5
Subtotals .....	\$81,695	\$87,270	\$94,527	\$7,257	8.3%
Totals .....	\$83,291	\$89,295	\$96,630	\$7,335	8.2%

As Table 18 shows, the budget proposes \$96.6 million for the instructional materials program in 1986-87—an increase of 8.2 percent (\$7.3 million)

**DEPARTMENT OF EDUCATION—Continued**

over the current-year funding level. Of this amount, \$2.1 million is for state operations and \$94.5 million is for local assistance. This amount requested primarily reflects baseline adjustments to account for increased enrollment plus a statutory cost-of-living adjustment of 5.78 percent.

***Program Scheduled to Sunset.*** Under the provisions of current law, various categorical education programs are scheduled to “sunset” on specified dates. The sunset provisions are intended to ensure that the Legislature conducts periodic, comprehensive reviews of these programs. Current law specifies a sunset date of June 30, 1986, for the instructional materials program. Elsewhere in this analysis, we recommend that the Legislature extend the sunset date for the instructional materials program by one year (to June 30, 1987), in order to allow time for the comprehensive program review envisioned by the Legislature.

Even if the Legislature does not continue the instructional materials program beyond its sunset date, the program does not actually terminate. Instead, the statute provides that funding “shall continue for the general purposes of [the] program as specified in the provisions relating to the establishment and operation of the program.” The statute further provides that such funds shall be used for the intended purposes of the program, but all relevant statutes and regulations governing the program (with specified exceptions) shall cease to be operative.

For this reason, the funding proposed in the budget for instructional materials will be needed despite the statutory sunset date. Accordingly, we recommend that the amount requested be approved as budgeted.

**Evaluation of School District Direct Order Option**

School districts may, at their option, receive cash allocations for instructional materials at the beginning of the school year. Districts that choose this option order textbooks directly from the publishers, instead of through the Department of Education.

The Department of Education was required by AB 2561 (Chapter 1503/82) to evaluate the direct order option and report to the Legislature by January 1, 1986, on the following:

- The amount of interest income accruing from the cash allocations and posted to the accounts of local districts, and
- Evidence of violations of current law governing the purchase of textbooks.

In its report (submitted December 19, 1985), the department states that in 1984–85, 263 districts (26 percent) selected the direct order option. These districts earned \$2.9 million in interest on the \$33.8 million that was allocated in lump sum amounts. The department estimates that the loss of interest income to the State Instructional Materials Fund in 1984–85 was \$3.3 million.

The report does not include information on violations of the law governing the direct order option because, according to the department, the necessary compliance review procedures have not been implemented. The department intends to prepare compliance review instructions for 1985–86 independent audits.



**Secondary School Text Reviews**

*We recommend that the Legislature eliminate \$105,000 in General Fund support for secondary school textbook "consumer guides," because the Department of Education has no plans to develop the guides. Consistent with this recommendation, we further recommend that the Legislature (1) reappropriate \$105,000 provided in the 1985 Budget Act for secondary textbook "consumer guides" and (2) reduce support for the State Department of Education state operations by \$210,000 to reflect both a budget-year reduction and reappropriation of \$105,000. (Reduce Item 6100-001-001 by \$210,000 and amend Item 6100-490.)*

The 1985 Budget Act provided an augmentation of \$105,000 for the State Department of Education (SDE) to prepare and publish analyses of secondary school textbooks. These analyses, referred to as "consumer guides," would be used by local school districts to assist them in selecting textbooks for use in secondary schools. The Governor's Budget proposes to continue this increased level of support for the same purpose in 1986-87.

**Legislative Directive.** During budget hearings on this issue, publishers and teachers' groups expressed concern that the department's activities in this area may be construed as, or may ultimately lead to, an adoption process for secondary level texts. The Legislature therefore adopted supplemental language providing that the Department's review of textbooks be factual and advisory only, and "shall not be construed as an adoption process." To ensure compliance with this intent, the Legislature also required "the Legislative Analyst . . . [to] review the expenditure of funds allocated for the purpose of textbook reviews and . . . report his findings in the *Analysis of the 1986-87 Budget Bill*."

**Our Review Indicates Major Program Change.** In conducting the required review, we learned that the department no longer plans to conduct its own review of textbooks and produce "consumer guides," as it told the Legislature it would do during last year's budget hearings. Instead, the department plans to initiate a staff development program, whereby local school district personnel will be trained to evaluate textbooks, using department-developed criteria.

We see several problems in the proposed course of action. First, we do not see how the requirement that the *Superintendent* review textbooks in conjunction with model curriculum standards provides authority for the staff development/local review program that the department plans to initiate. We are also puzzled by the apparent inconsistency between the argument made by the department during budget hearings that an efficient centralized review was needed and its current plans to provide for a multitude of parallel, district-based reviews. The primary problem with the SDE's plan, however, is that funds provided by the Legislature for one purpose would be used for another.

**Recommendation.** Since the Department of Education has no plans to develop the secondary textbook consumer guides, it has no need for the funds that the Legislature appropriated for this purpose in the current year or that the Governor's Budget proposes for the budget year. Accordingly, we recommend that the Legislature (1) reappropriate in Item 6100-490 the \$105,000 provided for this purpose in the 1985 Budget Act and (2) reduce the General Fund appropriation in Item 6100-001-001 by \$210,000 to reflect (a) the \$105,000 reappropriation and (b) a reduction of \$105,000 in the budget-year level of support. Consistent with this, we recommend that the Legislature adopt the following reappropriation language in Item 6100-490:

**DEPARTMENT OF EDUCATION—Continued**

“\_\_\_\_. Item 6100-001-001, Budget Act of 1985, \$105,000 for support of Department of Education.”

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

Demonstration programs in reading and mathematics were established to provide cost-effective, exemplary reading and math programs in grades 7 through 9, using innovative instructional techniques. The enabling legislation for the demonstration programs specifies that they are intended 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.

The program currently serves 27 schools in 19 districts. The Department of Education indicates that an additional site—not yet identified—will be funded in 1985–86.

The Governor's Budget proposes an appropriation of \$4,485,000 from the General Fund for the demonstration programs in 1986–87. This amount includes \$4,240,000 to continue the level of funding provided in the current year, plus \$245,000 for a 5.78 percent cost-of-living adjustment.

**No Hearing on Sunset Review.** During hearings on the 1985–86 Budget Bill, we presented two recommendations for legislative consideration that were derived from our sunset report on the Demonstration Programs in Reading and Mathematics. As explained elsewhere in this analysis, our recommendations were not given a hearing at that time, partly because the Department of Education argued that a more appropriate forum for considering them would be available as part of the sunset review process. The department then obtained reauthorization of the Demonstration Programs in a technical bill, thereby thwarting any further opportunity for legislative review of our report or the other sunset review reports.

We recommend elsewhere in this analysis that the Legislature (1) assign a new sunset date for the Demonstration Programs and (2) establish a procedure to ensure legislative review of sunset review reports. We believe, however, that our recommendations regarding program innovation and dissemination have direct fiscal implications and can be implemented through Budget Bill language. For this reason, we again present them for consideration during budget hearings.

**State Support for Innovative Programs**

*We recommend that the Legislature adopt Budget Bill language specifying that only those new demonstration program applicants proposing to utilize an instructional methodology or curriculum which differs significantly from existing demonstration programs may be considered for funding.*

Schools are selected to participate in the demonstration program on the basis of applications submitted to the State Board of Education. To be eligible, a school district must be designated as a “poverty and social tension area” by the State Department of Education, pursuant to Education Code Section 54483 (Compensatory Education Programs).

In funding new (as opposed to ongoing) demonstration programs, the State Board of Education in recent years has selected several programs

which, at least initially, utilized the same methodology as another demonstration program. (In some cases, these programs subsequently were modified to meet local needs.)

We question the desirability of using limited resources to fund new demonstration programs that, in large part, duplicate existing programs. Once the effectiveness of a particular instructional methodology has been established, regional workshops can be used to demonstrate these techniques to other schools. This will allow funds that become available for new demonstration programs to be used for testing other instructional techniques, thus increasing the demonstration value of the program.

Accordingly, to increase the demonstration value of the projects, we recommend that the Legislature adopt the following Budget Bill language in Item 6100-146-001, targeting funding for new projects toward those that do not duplicate existing projects:

"Notwithstanding any provision of law to the contrary, funds appropriated by this item and allocated to support the instructional costs of demonstration programs established after June 30, 1986, shall be allocated only to programs that demonstrate a significant departure from or variation of existing instructional practices. The State Department of Education shall establish criteria and guidelines necessary to ensure the implementation of this provision."

#### **Dissemination of Exemplary Programs**

*We recommend that the Legislature adopt Budget Bill language making continuation of state support for any demonstration program that has been funded for three or more years contingent upon agreement by the school district to fund the instructional component of the program from district funds, with state support limited to the costs of curriculum development and dissemination/replication activities.*

A demonstration or model program cannot be judged successful if schools are unwilling to replicate it. In such cases, one must conclude that the demonstration program is less effective than existing instructional programs. Consequently, individual demonstration programs must be evaluated in terms of the extent to which they are replicated.

The starting point for applying this criterion should be at the school site where the demonstration program is in operation. If, after it has had an opportunity to gauge the effectiveness of its own demonstration program, a district chooses *not* to fund the program's instructional costs, there is no apparent reason why other districts would want to replicate the same program. Put another way, if the state expects other schools to replicate an effective demonstration program, it should hold the same expectation for the school operating the program.

Accordingly, we recommend that school districts be required to fund the instructional component of their demonstration programs after the third year of state support. In the fourth and subsequent years, state support should be limited to curriculum development and dissemination/replication activities. To achieve this objective, we recommend that the Legislature adopt the following Budget Bill language in Item 6100-146-001:

"Notwithstanding any other provision of the law to the contrary, funds appropriated by this item shall not be allocated to support the instructional cost of a demonstration program that has been in existence for a period of more than three years. Such demonstration programs may receive allocations from funds appropriated by this item to support only curriculum development and dissemination/replication activities."

**DEPARTMENT OF EDUCATION—Continued****e. High School Pupil Counseling (Item 6100-109-001)***We recommend approval.*

The high school pupil counseling program, established by SB 813, allows secondary schools to apply for funds to provide supplementary counseling services to pupils. Under this program, each pupil in participating schools receives, prior to reaching age 16 or completing the 10th grade (which ever comes first), a review of his or her academic progress and counseling regarding educational and career options. Priority must be given to identifying and counseling pupils who are not earning credits at a rate which will enable them to graduate with the rest of their class. The act authorizes an allocation of \$20 for each 10th grade pupil (based on prior-year enrollments) to school districts participating in the program. In the current year, this allocation was increased to \$20.80 per 10th grade pupil to offset the effects of inflation.

The Governor's Budget requests \$7,679,000 for the high school counseling program in 1986-87. This amount includes increases of \$191,000 for projected 10th grade enrollment growth and \$151,000 to provide a 2 percent cost-of-living adjustment.

Our review indicates that the high school counseling program is being operated in accordance with legislative intent. Accordingly, we recommend that it be approved as budgeted.

**f. Environmental Education (Item 6100-141-140)***We recommend approval.*

The environmental education program provides planning and implementation grants to local education agencies, other governmental agencies, and nonprofit organizations to support education programs related to the environment, energy, and conservation. Current law requires grant applicants to assign high priority to programs providing in-service and pre-service conservation education for teachers. Funds for this program are appropriated from the California Environmental License Plate Fund.

In the 1985 Budget Act, funding for environmental education local assistance was increased from \$394,000 in 1984-85 to \$604,000. The Governor's Budget proposes to continue this level of support in 1986-87.

At the time this analysis was written, the department had awarded 41 grants totaling \$436,000 in 1985-86. The department indicates that the remaining \$168,000 will be awarded subsequent to further review of its priorities regarding grant requests. (One option being considered is to give higher priority to proposals that coordinate environmental education programs with state model curriculum standards.)

Our review indicates that this program is being operated in accordance with legislative intent. Accordingly, we recommend that it be approved as budgeted.

**g. Intergenerational Education (Item 6100-128-001)***We recommend approval.*

Intergenerational education programs provide for the involvement of senior citizens in public elementary and secondary schools. The objective is to provide educational experiences that benefit both students and the participating senior citizens.

Intergenerational programs were established in 1983-84, when 11 programs were initiated with \$90,000 of federal ECIA Chapter 2 funds. In 1984-85, SB 2039 (Ch 1592/84) replaced federal funds with state General Fund support and increased the funding level to \$165,000. This same level of funding was provided in the 1985 Budget Act.

Pursuant to Chapter 1592, the increased level of funding has been used to continue support for the original 11 programs. (SB 2039 contained an additional appropriation of \$135,000 to fund new programs, but this amount was vetoed by the Governor.)

The Governor's Budget proposes to continue funding for intergenerational programs at \$165,000 in 1986-87. Our review indicates that these programs are being operated in accordance with legislative intent. Accordingly, we recommend that they be approved as budgeted.

#### **h. Curriculum on Birth Defects (Item 6100-183-001)**

*We recommend that the Legislature delete \$500,000 requested from the General Fund for the curriculum on birth defects program because funds appropriated in the current year are sufficient to develop and pilot test the model curriculum and further funding is unwarranted at this time. (Reduce Item 6100-183-001 by \$500,000.)*

In the current year, the Governor initiated a program to develop and test a curriculum on developmental disabilities and birth defects. The purpose of this curriculum is to reduce the incidence of birth defects by providing information on what causes these defects and how they may be prevented. During deliberations on the 1985 Budget Act, the Department of Finance (DOF) indicated that the funding requested for this project (\$500,000) would be needed for 1985-86 only. On this basis, the Legislature approved the funding request.

Funds appropriated in the current year have been used to provide grants to three local education agencies to develop and test a birth defect curriculum for grades 9-12. The grant period extends from October 1985 to September 1986. According to the grant contracts, the curriculum will be both developed and tested by the end of the grant period.

**Budget Proposal.** The Budget for 1986-87 requests an additional \$500,000 to develop a birth defect curriculum. The Department of Education indicates that, this time, funds will be used to develop a curriculum for use in grades 6-8. Contracts would be awarded to the same districts that are developing the grade 9-12 curriculum.

Our review indicates that additional funds are not warranted for this purpose at this time, for two reasons.

**There Is Relatively Little Interest in This Program.** There is no evidence that a birth defect curriculum would be widely adopted by schools. In fact, only 3 of the 38 school districts and county offices of education that were sent a Request for Proposals prior to the awarding of grants chose to submit proposals, even though all 38 had expressed an interest in competing for a contract. Department personnel indicate that the low response rate was due to a requirement in the RFP that grant recipients agree to actually implement the curriculum they develop.

Given that 92 percent of the local agencies expressing an interest in developing a curriculum were reluctant to implement it, the potential marketability of the curriculum among all districts is questionable at best. We believe the desire and/or ability on the part of districts to implement a curriculum on birth defects should be established prior to making additional funds available for this project.

**DEPARTMENT OF EDUCATION—Continued**

*The Curriculum Developed During the Current Year Can Be Adapted Without Significant New Funding.* We see no need to “reinvent the wheel” in making the curriculum available for lower grade levels. Instead, it would be more cost-effective to modify for use in these lower grades the curriculum developed for grades 9–12 during the current year. Doing so would be far less costly than developing an additional curriculum anew.

For these reasons, we do not believe additional funding to support birth defect curriculum development is warranted at this time, and we accordingly recommend that the Legislature delete the \$500,000 budgeted for this project.

**i. Educational Technology Program (Item 6100-181-001)**

The Educational Technology program, as amended by Ch 1133/83 (AB 803), provides support for the use of technology in the classroom. Specifically, AB 803:

- Requires the State Board of Education to adopt rules and regulations governing the administration of the Educational Technology program, and requires the Superintendent of Public Instruction to administer the program accordingly;
- Establishes the Educational Technology Committee to advise the State Board of Education on issues relating to educational technology policies, and allocations of Educational Technology program funds; and
- Authorizes the expenditure of program funds for a variety of uses, including grants to schools to support the acquisition of computer hardware and software, the purchase of statewide software and instructional television (ITV) licenses, and various resource and support services and projects that support the use of technology in the classroom.

In the current year, the Legislature augmented funding for the Educational Technology program by \$10 million, for a total General Fund appropriation of \$25,628,000 in 1985–86. The budget proposes a General Fund appropriation of \$26,141,000 for local assistance in the Educational Technology program during 1986–87—an increase of \$513,000, or 2 percent (COLA).

**Implementation Status of Educational Technology Program**

The Educational Technology program, as amended by AB 803, is in its second full year of operation, having received appropriations of \$15 million in 1984–85 and \$25.6 million in the current year. Table 19 shows how educational technology funds have been spent so far.

As Table 19 shows, approximately 89 percent of the funds (\$36 million) has gone to support *computer* technology in the classroom, and 11 percent of the funds (\$4.5 million) has gone to support the use of *instructional television (ITV)*. The table further shows that nearly three-fourths (\$25.9 million) of the \$36 million spent on computer technology has been used to purchase computer hardware.

**Table 19**  
**K-12 Education**  
**Educational Technology Program**  
**Distribution of Expenditures**  
**1984-85 and 1985-86**  
**(dollars in thousands)**

<i>Expenditure Category</i>	<i>1984-85</i>	<i>1985-86</i>	<i>Expenditures as Two-Year Total</i>	<i>Percent of Total</i>
<b>COMPUTER TECHNOLOGY</b>				
a. Hardware Acquisition .....	\$9,000	\$16,900	\$25,900	63.7%
Adoption and Expansion Grants				
b. Software .....	—	2,300	2,300	5.7
State Licenses .....		(300)		
Acquisitions .....		(2,000)		
c. Staff Development .....	—	3,000	3,000	7.4
Summer Training Institute				
d. Resources and Support Services .....	2,936	1,889	4,825	11.9
Development and Dissemination of Local Projects .....	(1,040)	(380)		
Technology in Curriculum Guides (TIC Projects) .....	(1,342)	(946)		
Technical Assistance .....	(554)	(563)		
Subtotals, Computer Technology .....	\$11,936	\$24,089	\$36,025	88.6%
<b>INSTRUCTIONAL TELEVISION (ITV)</b>				
a. Hardware Acquisition .....	\$1,752	—	\$1,752	4.3%
VCR Give-away				
b. Instructional Materials .....	323	\$91	414	1.0
Licensing Agreements				
c. Resources and Support Services .....	1,010	1,305	2,315	5.7
Technical Assistance .....	(1,010)	(1,245)		
Newsletter .....		(60)		
Subtotals, ITV .....	\$3,085	\$1,396	\$4,481	11.0%
Adjustments .....	-\$2,237	\$2,237	—	—
Misc. expenses .....	6	143	149	0.4
Totals .....	\$12,790	\$27,865	\$40,655	100%

<sup>a</sup> A small portion of these grants have been used to purchase video hardware, computer software (11 percent), personnel and staff development (4 percent), and maintenance and consultant services (7 percent).

<sup>b</sup> These guides are also a resource for the use of ITV programs in the curriculum.

<sup>c</sup> Adjustments include funds allocated in 1984-85, but reappropriated and expended in 1985-86.

<sup>d</sup> Includes committee travel expenses, and consultant services in 1985-86 for developmental work, as authorized by AB 982 (Ch 1546/85).

Funding for the acquisition of computer hardware is awarded to schools through a competitive process providing "adoption and expansion" grants. In order to receive a grant, a school must (1) develop a plan for using educational technology at the school site and (2) describe how the adoption/expansion grant will support the school's plan. While most schools have used the grant funds to purchase computer hardware, the funds may also be used to purchase software and to support teacher training.

These grants are awarded to schools on a state/local matching ratio of 10:1, with elementary schools eligible for grants of \$8,000 and secondary schools eligible for grants of \$12,000. Over the two years, a total of approximately 1,727 elementary schools and 1,093 secondary schools have received such grants.

**DEPARTMENT OF EDUCATION—Continued**

The Educational Technology Committee is currently in the process of developing an allocation plan for the program in 1986-87. We anticipate that the majority of funds distributed in the budget year will again go to support the adoption and expansion grants.

**Long-Range Plan and Preliminary Budget-Year Allocation Plan Needed**

*We recommend that during budget hearings, the Department of Education report on the status of the long-range plan for the Educational Technology program. We further recommend that the Legislature adopt supplemental report language directing the State Board of Education to adopt (1) a long-range plan by, November 30, 1986, and (2) a preliminary allocation plan for the Educational Technology program in 1987-88 by March 1, 1987.*

The State Department of Education (SDE) is in the process of developing a long-range plan for the Educational Technology program. It expects to complete the plan sometime in March or April of 1986. The Educational Technology Committee will then take action on the plan, after which the plan will be presented to the State Board of Education. The State Board of Education, however, is not required by statute to adopt a plan.

We agree that a long-range plan for the Educational Technology program is needed. The authorizing legislation (AB 803) for the program does not define specific program goals and objectives. Without such a set of goals and objectives for the program, the Legislature cannot (1) determine whether the program is effective, (2) judge the appropriateness of the program's expenditures, or (3) determine a proper funding level.

Accordingly, we recommend that during budget hearings, the State Department of Education report on the status of the long-range plan for the Educational Technology program. This plan should include at the minimum, the following components:

- **Identification of Needs**—an assessment of school districts' current educational technology needs (for example, equipment and training needs);
- **Goals and Objectives**—specific, measurable program goals and objectives, tied to the identified needs;
- **Implementation Strategy**—a strategy for meeting the goals of the program given the current level of funding, including strategies for coordinating with other educational programs that support certain aspects of the program;
- **Equal Access Strategy**—a strategy for assuring that all students in the state have access to the program on an equitable basis;
- **Evaluation**—an evaluation component covering both specific aspects of the program (for example, the adoption and expansion grants), and overall program effectiveness (the effectiveness of using computers in instruction).

We further recommend that the Legislature direct the State Board of Education to adopt a long-range plan by November 30, 1986.

Finally, if the Legislature is to determine the proper funding level for the Educational Technology program it must be able to review whether the proposed allocations for the Educational Technology program are consistent with the long-range plan. The Legislature is not able to do this now because the specific allocations for the Educational Technology program are determined *after* the Budget Act is chaptered. Accordingly, we recommend that the Legislature direct the State Board of Education to adopt a preliminary allocation plan for the Educational Technology program in 1987-88, *prior* to the hearings on the 1987 Budget Bill.



These actions can be accomplished by adopting the following supplemental report language in Item 6100-181-001:

"It is the intent of the Legislature that the State Board of Education adopt (1) a long-range plan for the Educational Technology program by November 30, 1986 and (2) a preliminary allocation plan for the Educational Technology program for the 1987-88 fiscal year by March 1, 1987."

#### **Funding Formula for Grant Administration Needed**

*We recommend that the Legislature direct the Educational Technology Committee and the State Department of Education to (1) specify the functions of Teacher Education and Computer Centers (TECCs) in administering the Educational Technology grant program, (2) develop a funding formula that takes into account the costs of performing the specified functions, and (3) use the formula in determining the TECC allocation from the total amount of funds appropriated for the Educational Technology program in the budget year.*

The Educational Technology program adoption and expansion grants are administered by the statewide network of 15 Teacher Education and Computer Centers (TECCs). These centers are supported by the General Fund, and provide staff development services to school districts on a regional basis.

Funding for the adoption and expansion grants is allocated to the TECCs based on the enrollment in school districts within their respective regions. Each TECC accepts grant applications from the school districts in its region, rates the applications according to specified criteria, and recommends which applications to fund, based on the ratings and the amount of available funds. In addition, the TECCs, to the extent feasible, are required to provide technical assistance to schools and school districts, including assistance in developing educational technology plans.

The Educational Technology Committee allocates funds from the Educational Technology program to the TECCs in order to administer the adoption and expansion grant program. In 1984-85, the TECCs received a total allocation of \$554,000 for this purpose. Each TECC received an allocation ranging from \$2,000 to \$90,000, with most TECCs receiving between \$30,000 and \$45,000. Preliminary 1984-85 expenditure reports from 13 of the 15 TECCs, however, show that the cost of administering the program totalled approximately \$830,000—or \$290,000 more than what was allocated to the centers. (This was due in part to the fact that the TECCs had to administer two cycles of grants in 1984-85.) In the current year the TECCs are receiving \$563,000 for administering the Educational Technology grants—a 2 percent increase over the amount provided for this purpose in 1984-85.

Based on our discussions with TECC administrators, it appears that the Educational Technology administrative allocation primarily covers the costs associated with administering the grant application process (such as the costs of paying readers to rate the grant applications) and does not provide the TECCs with adequate funding to provide proper technical assistance to school districts. In particular, the TECCs do not have sufficient funding to (1) provide continued assistance to those schools that receive a grant, (2) engage in outreach activities and provide assistance to those schools that have never applied for grants, and (3) evaluate the programs implemented by the schools in their regions.

We believe that, if the TECCs are to be given the responsibility for administering the adoption and expansion grant program and are expect-

**DEPARTMENT OF EDUCATION—Continued**

ed to provide technical assistance to schools, they should be provided adequate funds to support these functions. Accordingly, we recommend that the Legislature direct the Educational Technology Committee and the State Department of Education to (1) specify the TECCs' functions in administering the grant program, (2) develop a funding formula that takes into account the costs of carrying out the specified functions, and (3) use the formula in determining the TECC allocation from the total amount appropriated for the Educational Technology program in the budget year.

**j. Institute of Computer Technology (ICT) (Item 6100-181-001)**

The Institute of Computer Technology (ICT) was established, pursuant to Chapter 1528, Statutes of 1982, by three school districts in Santa Clara County—Sunnyvale Elementary, Fremont Union High School, and Los Gatos Joint Union High School. The ICT provides education and training in computer technology for pupils in grades K-12 and adults.

**New Curriculum Development Duties.** Senate Bill 356 (Ch 1516/85) expanded the duties of the ICT. Specifically, the bill appropriated \$200,000 to the ICT for use in developing and testing computer technology curricula for statewide dissemination in 1985-86 and 1986-87. The bill also (1) directed the Legislative Analyst to include in the *Analysis of the 1986-87 Budget Bill*, a review of the effectiveness of the proposed model curriculum materials that the institute plans to disseminate to school districts, (2) deleted a requirement that the ICT be funded as a Regional Occupational Center and Program (ROC/P), and (3) required the ICT to report to the Legislature by December 31, 1985 regarding its funding needs for 1986-87 and thereafter.

The ICT received an appropriation of \$267,800 in the 1985 Budget Act, which supports approximately 100 ADA as defined by the ROC/P formula. These funds, combined with the funds provided in SB 356, yield a total appropriation of \$467,800 for the ICT in the current year.

**Budget Proposal.** The budget proposes to continue the *base* level of funding for the ICT in 1986-87. Specifically, the budget proposes a General Fund appropriation of \$273,156 in 1986-87, which is an increase of \$5,356, or 2 percent (COLA) over the level of funding provided by the 1985 Budget Act.

**SB 356 Curriculum Development Status**

As described above, SB 356 requires the Legislative Analyst to include in the *Analysis of the 1986-87 Budget Bill*, "a review of the Institute for Computer Technology, . . . which shall address the effectiveness of the proposed model curriculum materials and training programs that the institute plans to disseminate to school districts and recommendations for funding this function."

The institute is still in the process of developing model curriculum materials and training programs. Therefore, it is too early to assess the "effectiveness" of these materials.

Our review indicates, however, that the ICT is (1) taking the necessary steps to ensure that the curriculum developed will indeed meet statewide needs, (2) making plans to adequately test the curriculum before disseminating it on a statewide basis, and (3) moving ahead with its mandated duties in a timely fashion. Specifically, the ICT has:

- Established a curriculum development unit;
- Established a relationship with the State Department of Education, to help ensure that courses being developed will be useful elsewhere in the state, and are not duplicative of state efforts;
- Met with various representatives of universities, colleges and community colleges to discuss the needs of entering high school students;
- Identified the need for advanced placement courses in computer technology, and modified the list of courses it is developing, to ensure that some of the proposed modules can be combined to cover the content of the advanced placement examination for computer sciences;
- Prepared a model format for curricula that will be developed;
- Prepared a list of seven new courses or modules to be developed and three existing courses to be documented and tested for possible dissemination;
- Met with representatives of industry to validate that the planned list of classes covers skills that are the most important; and
- Begun identifying curriculum development teams to develop and test the curriculum.

We will continue to monitor the progress of the ICT in carrying out its duties, and we will report to the Legislature as appropriate.

#### **ICT Funding Requirements**

*We recommend that the Legislature adopt Budget Bill language establishing a variable cost funding formula for determining the funding requirements of the Institute of Computer Technology (ICT). We further recommend that the Legislature (1) augment the proposed level of funding for the ICT by \$67,244 from the General Fund to support 100 ADA, in order for the ICT to properly test and evaluate the curricula it develops pursuant to SB 356, and (2) adopt Budget Bill language specifying that 100 ADA shall be the maximum enrollment for the ICT, in order to impose reasonable controls on state costs. (Augment Item 6100-181-001 by \$67,-244.)*

In our report, "An Evaluation of the Institute of Computer Technology," submitted to the Legislature in September 1985, we make the following findings and recommendations regarding the formula used to fund the ICT:

- **Current Funding Formula Does Not Reflect Costs.** In the current and prior years, the ICT was funded on the same formula basis as the Regional Occupational Centers and Programs (ROC/Ps). Because the ICT is a small organization, however, a disproportionate share of the institute's costs are fixed and do not vary with the size of the student population. Consequently, this funding method, which is based on average cost per ADA, does not adequately recognize the ICT's costs. (As a result, SB 356 repealed the requirement that the ICT be funded on the same basis as the ROC/Ps. Currently, therefore, a funding formula for the ICT is not specified in statute.)
- **A Variable Cost Funding Formula Is Needed.** In our report, we recommend that the ICT be funded using a "variable cost" funding formula. Under such a model, ICT's fixed costs would be identified and funded on a "block grant" basis. Its variable costs—those costs linked directly to instruction—would be funded on a per-ADA basis. Our analysis indicates that this model would most accurately reflect

**DEPARTMENT OF EDUCATION—Continued**

the actual ongoing costs of operating the institute. (For the same reasons, the Legislature chose to use a variable cost model as the basis for funding necessary small elementary and secondary schools, and necessary small ROC/Ps.)

- ***The State Should Require a 100 Percent Match of State Funds.*** In our report, we also recommend that the Legislature enact legislation requiring ICT to match state funds on a dollar-for-dollar basis. Because the ICT was established, in part, to benefit district students and employers in the Silicon Valley, we believe it is appropriate to expect continued support of the institute by participating districts and private firms. In 1985–86, private industry and district support for the ICT is expected to total \$287,119—or about 7 percent more than the state appropriation. We believe that it would be reasonable to require a dollar-for-dollar match in the future. (There is also precedent for a matching requirement of this type—in enacting Chapter 1568, Statutes of 1984 (AB 3104), the Legislature required a match of state support for the Peninsula Academies Model Program.)

***ICT Funding Formula Proposal.*** As noted above, SB 356 required the ICT to report to the Legislature, by December 31, 1985, on its funding needs for the 1986–87 and subsequent fiscal years. The ICT submitted the report to the Legislature in December, 1985. In determining its funding needs for 1986–87 and subsequent years, the ICT developed a variable cost funding formula, such as the one we recommend in our report. Specifically, the ICT proposes a funding model that (1) recognizes the fixed costs of the institute and funds the variable costs on an ADA basis, and (2) is based on a 100 percent local match of state funds.

Based on 1985–86 cost data, the ICT determined that its fixed costs in 1986–87 would be \$234,400, and its variable costs would be \$1,060 per ADA. These figures are based on the calculation of ADA used for Regional Occupational Centers and Programs (one ADA is the equivalent of one student attending 3 hours per day for 175 days).

The ICT also proposes that the funding formula be administered through adoption of a sliding scale, such as those used to determine funding for various necessary small schools. Specifically, the ICT proposes a scale that ranges from \$245,000 to fund 1 to 10 ADA, to \$340,400 to fund 91 ADA and above. The scale increases in increments of 10 ADA, with the ICT receiving, on top of a base of \$234,400, an additional \$10,600 for every ten units of ADA. The scale only goes as high as 100 ADA because the ICT feels that this would be its enrollment capacity.

***Recommendation.*** Our review indicates that (1) the ICT's methodology for determining its fixed and variable costs is reasonable, and (2) the proposed funding formula would accurately reflect the ICT's funding requirements and impose minimal administrative costs. Accordingly, we recommend that the Legislature adopt the following Budget Bill language in Item 6100-181-001, establishing the formula as the basis for the ICT's funding in 1986–87:

“Notwithstanding any other provision of law to the contrary, in order to receive state funding for the 1986–87 fiscal year, the ICT shall provide an amount equal to a 100 percent match of all state funds provided by the participating school districts and private companies. The Superintendent of Public Instruction shall allocate funds appropriated in this item to the Institute of Computer Technology according to the following schedule:

ADA	Appropriation
1-10	\$245,000
11-20	255,600
21-30	266,200
31-40	276,800
41-50	287,400
51-60	298,000
61-70	308,600
71-80	319,200
81-90	329,800
91-above	340,400

The average daily attendance (ADA) as used in this provision shall be calculated in the manner that ADA is computed for the Regional Occupational Centers and Programs in Article 1 (commencing with Section 52300) of Chapter 9 of Part 28 of the Education Code."

As described above, the Legislature provided \$200,000 in SB 356 for the ICT to use in developing and testing curricula. In order for the ICT to properly carry out these mandated duties, the ICT estimates that an enrollment of 100 ADA is necessary. This level of enrollment would provide the ICT with an appropriate number of students to test and evaluate the curricula it develops. The Governor's budget proposal, however, would only fund approximately 37 ADA.

We concur with the ICT's estimate of the enrollment needed to achieve the goals outlined by the Legislature in SB 356. Accordingly, we recommend that the Legislature augment the funding proposed for the ICT by \$67,244 from the General Fund in order to fund enrollment of 100 ADA. We further recommend that the Legislature impose a ceiling of 100 ADA on the ICT's state-funded enrollment, in order to impose reasonable controls on state funding, by adopting the following Budget Bill language:

"Notwithstanding any other provision of law to the contrary, for the 1986-87 fiscal year, the ICT shall receive state funding for no more than 100 ADA."

## **2. Programs Relating to Teaching and Administration**

Table 20 summarizes funding in the prior, current, and budget years for the programs relating to teaching and administration. All of these programs are either staff development programs, or have staff development components. With the exception of the State Department of Education (SDE) and California State University (CSU) joint proposal to improve teaching, each of the programs listed in the table is discussed in the individual program analyses presented in this section. The SDE/CSU proposal is discussed in our analysis of the CSU budget (please see Item 6610-001-001).

### **Study of K-12 Education Staff Development Programs**

*We recommend that the Legislature adopt supplemental report language in Item 6420-001-001 (California Postsecondary Education Commission) which specifies the scope of the staff development evaluation.*

During the 1985 session, the Legislature passed Assembly Bill 2101 (Allen), which appropriated \$325,000 for a study of K-12 staff development programs. Specifically, the study was intended to:

- Examine the organization, coordination, and practices of the staff development programs that are funded through and administered by the State Department of Education, the California State University, and the University of California;

## DEPARTMENT OF EDUCATION—Continued

**Table 20**  
**K-12 Education**  
**Support for Programs Relating to Teaching and Administration**  
**Local Assistance**  
**1984-85 through 1986-87**  
**(dollars in thousands)**

	<i>Actual</i> 1984-85	<i>Est.</i> 1985-86	<i>Prop.</i> 1986-87	<i>Change</i> <i>from 1985-86</i>	
				<i>Amount</i>	<i>Percent</i>
General Fund:					
Mentor Teacher Program .....	\$30,800	\$44,750	\$45,750	\$1,000	2%
Classroom Teacher Instructional Improvement Program .....	17,100	17,100	17,100	—	—
Teacher Education and Computer Centers .....	11,982	12,461	12,710	249	2
School Personnel Staff Development Program .....	3,470	3,609	3,681	72	2
Bilingual Teacher Training Program ....	802	834	851	17	2
CA International Studies Project .....	—	—	480	480	N/A
Regional Science Resource Center .....	675	—	—	—	—
SDE/CSU Teaching Improvement Program .....	—	—	542	542	N/A
Administrator Training and Evaluation Program .....	1,510	4,150	4,243	93	2
Pilot Projects to Improve Administrative Personnel .....	—	500	—	-500	-100
School Business Personnel Staff Development .....	—	250	250	—	—
Subtotals, General Fund .....	\$66,339	\$83,654	\$85,607	\$1,953	2%
Federal funds:					
Math and Science Teacher Training Grant .....	—	5,448	5,448	—	—
Chapter 2 staff development programs .....	260	—	—	—	—
Subtotals, Federal funds .....	\$260	\$5,448	\$5,448	—	—
Totals .....	\$66,599	\$89,102	\$91,055	\$1,953	2%

- Assess statewide staff development needs and the availability of the current programs to meet those needs; and
- Recommend the changes needed to deliver staff development services in the most coordinated and effective manner, while preserving the elements of existing programs that have been successful.

The Governor vetoed this bill.

The Governor now proposes a General Fund appropriation of \$300,000 for the California Postsecondary Education Commission (CPEC) to conduct a study of staff development programs. The Governor, however, does not propose Budget Bill language specifying the scope of the study.

Our review indicates that a study of staff development programs serving K-12 education teachers and administrators is, indeed, warranted. Over the past 10 years, the number of special staff development programs and the amount of state and federal funding devoted to such programs has increased dramatically—from four programs costing roughly \$1.6 million

in 1978-79 to 20 programs costing over \$100 million in 1986-87.

In terms of *numbers*, most of these programs provide staff development services directly (as opposed to providing funds to school districts for staff development purposes). Specifically, the number of such "provider" programs will have grown from 3 in 1978-79 to 16 in 1986-87. In terms of *funding*, however, the greatest increase has occurred in funding for "user" programs, as shown in chart 4.

Chart 4

**Trend in Staff Development Funding  
1978-79 through 1986-87 (in millions)**

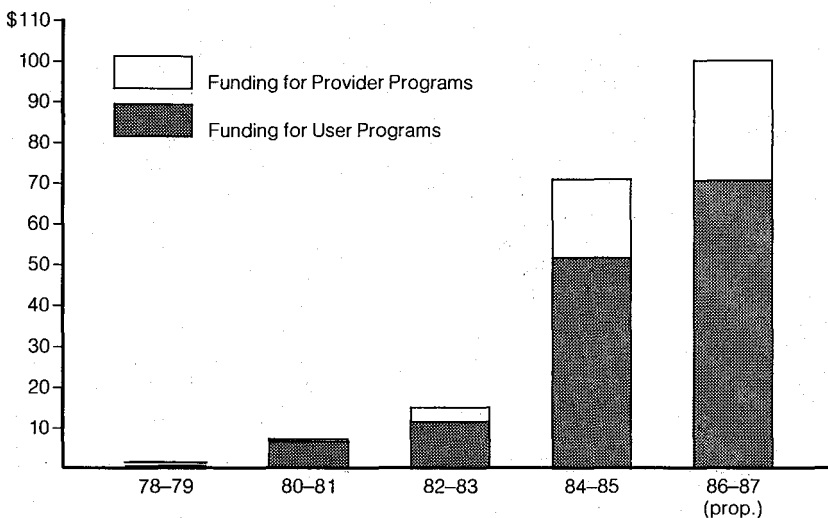


Chart 4 shows that, over the past 10 years, total funding for both types of staff development programs will have increased from approximately \$1.6 million in 1978-79 to approximately \$100 million in 1986-87. In the budget year, staff development programs will be supported primarily by the state, with the General Fund providing nearly \$90 million and federal funds contributing approximately \$10 million. The chart also shows that, in 1986-87, nearly \$71 million will be spent on programs which provide staff development funds directly to the "users" of such services and approximately \$30 million will be spent on programs which support the "providers" of such services.

(Chart 4 includes all state- and federally-funded programs for which staff development is the *primary* activity. In addition to these programs: (1) the state provides funding to county offices of education which may, in turn, offer staff development services; (2) several state- and federally-funded categorical education programs permit a portion of their funds to be used for staff development purposes; and (3) school districts may use

**DEPARTMENT OF EDUCATION—Continued**

local district funds to support staff development activities. No estimates are available of the amounts spent on staff development from these sources.)

**Description of the Current System**

Table 21 displays three major dimensions of the current "system" of providing staff development services. As the table shows, the current system consists of a multiplicity of programs that (1) are administered by a number of different agencies, (2) have differing goals, and (3) target funds in different ways.

**Multiple Administering Agencies.** While most of the state's staff development programs are administered by the State Department of Education (SDE), there are a number of programs that are administered by other state agencies. Further fragmentation occurs within the SDE, as the department's staff development unit only administers approximately one-third of the programs; the remainder are administered by a number of different units. In addition, statutes governing some programs require the SDE to designate a local education agency or institution of higher education as the provider of a particular service, and give the department little authority in administering the programs.

**Differing Program Goals.** The existing staff development programs generally can be categorized as providing training to meet three types of goals: (1) general staff development—professional development of teachers and administrators within their current areas of subject expertise; (2) training and re-training in specific areas where there are shortages of qualified teachers and administrators; and (3) staff development in specific and/or "special interest" areas. Currently, there appears to be no analytical basis for the relative allocation of funds among these different categories of training.

**Differing Philosophies As To Who Should Allocate Resources.** The allocation of staff development resources occurs at two levels. The Legislature annually appropriates funds in the Budget Act both to specific provider programs and to programs which provide funds directly to schools either on a grant or entitlement basis. In appropriating funds to specific provider programs, the Legislature allocates staff development resources to the areas it believes are needed by the state's teachers and administrators. These state-supported programs, in turn, generally offer their services to schools at no cost. In appropriating funds to "user" programs, the Legislature delegates the responsibility for allocating staff development resources to the "user." The "users"—schools and teachers—use the funds to "purchase" the services that they need.

**Problems With the Current System**

Our analysis indicates that there are a number of problems with the current system of staff development programs.

*First*, the administration of the current system is fragmented, with program coordination lacking at both the state and local levels. This lack of coordination gives rise to the possibility that there is duplication of services and excessive administrative costs for overlapping programs.

*Second*, it is not clear whether the current distribution of resources accurately reflects the state's staff development needs. We do not know, for example, the needs for different types of staff development training;



**Table 21**  
**K-12 Education**  
**Summary of Staff Development Programs**  
**1986-87**  
**(dollars in thousands)**

1986-87											
(dollars in thousands)											
	1986-87 Funding	Responsible Administrative Agency				Specific Provider	Program Goals			Recipient of Funds	
		SDE	UC	CSU	CPEC		General Staff Develop.	Re-Train for Shortages	Other Limited Purpose	Service Provider	Service User
General Fund:											
Mentor Teacher Program "a	\$45,750	X					X		X		X
Classroom Teacher Inst. Improvement											
"	17,100	X					X				X
TEC Centers "b	12,710	X					X	X		X	
School Personnel Staff Dev. (AB 551) "c	3,681	X					X				X
Bilingual Teacher Training "d	851	X						X		X	
CA International Studies Project	480	X				X			X	X	
Regional Science Resource Center	b	X				X			X	X	
SDE/CSU joint proposal	542	X		X			X	X	X	X	
Administrator Training & Evaluation ..	4,243	X							X	X	
School Business Personnel	250	X						X	X	X	
CA Math Project	1,240		X						X	X	
CA Writing Project	717		X						X	X	
Centers for Economic Education	73				X				X	X	
Subtotal, General Fund	\$87,637										
Federal funds:											
ECIA Chapter 2 programs:											
Federal Teacher Centers	295	X				X	X			X	
CA Literature Project	300	X							X	X	
CA History Project	300	X							X	X	
CA Geography Project	15	X							X	X	
Humanities Project	20	X							X	X	
Special Education (SERN)	c	X				X			X	X	
Math Science Training Grant	7,913	X			X		X	X		X	X
Subtotal, federal funds	88,843										
TOTALS	\$96,480										

<sup>a</sup> Administered by the Staff Development Unit of the State Department of Education.

<sup>b</sup> Budget-year amount not yet determined.

<sup>c</sup> Budget-year amount not known (current-year amount is \$3.7 million).

NOTE: Other sources of funding available to school districts for staff development include: (1) county offices of education, (2) categorical education programs that permit a portion of their funds to be used for staff development purposes, (including, federal ECIA Chapter 1, Special Education, School Improvement Program, and Miller-Unruh Reading Program), and (3) local district funds. Currently, no data exists on the amount of funds from these sources which is devoted to staff development.

**DEPARTMENT OF EDUCATION—Continued**

the goals and objectives of the programs in the different areas; or whether the current configuration of programs providing training in each of the categories is efficient and cost-effective.

*Finally*, the current system does not appear to be responsive to the changing needs of school districts. As new staff development needs have been identified, the Legislature has tended simply to overlay new programs on old programs, rather than redirecting funding from existing programs. As a result, the current system consists of a large number of programs, which do not necessarily meet the most pressing staff development needs of the state's school districts.

In sum, we find that the current staff development "system" is not a cohesive, well-coordinated one. In its recently published report, "Who Will Teach Our Children?," the California Commission On the Teaching Profession reaches the same conclusion, stating that there is a need to "... convert the current, confusing system into a cohesive whole capable of sustaining direction and meeting state goals."

**An Alternative Staff Development System**

We believe that an alternative system should be developed for meeting the state's staff development needs. This system should be designed to avoid the problems in the current system outlined above. Specifically, it should:

- Be well-coordinated, imposing minimal administrative costs;
- Provide a rationale for determining appropriate funding levels for staff development programs; and
- Be responsive to both statewide and local staff development needs.

**An Example Alternative.** Under one such alternative, the Legislature would appropriate funds for staff development in each of the three areas of training identified above. Specifically, the three funding categories would be: (1) regular professional development of teachers and administrators; (2) retraining teachers and administrators in response to "shortages;" and (3) pilot testing of new staff development service providers.

Under this alternative, the funds for the regular professional development of teachers and administrators (category 1) would be allocated to support (1) the core costs of a regionally-based primary service provider (for example, the Teacher Education and Computer Centers) and (2) staff development entitlements to schools. The allocation to the primary provider would support a core complement of staff, plus fixed costs.

To meet the demands in the region, the primary provider would charge districts fees based on the marginal cost of providing the service and would either provide the service itself or contract with other staff development providers to do so. The balance of the funds provided in this category would go directly to school districts on a per-ADA basis (with a minimum guarantee for small districts). These funds would be used by schools to purchase needed staff development services from the primary provider in their region, or from any other service provider. The total level of funds would be increased annually to reflect ADA growth and inflation.

Funds for the retraining of teachers and administrators in response to "shortages" (category 2) would be allocated directly to the primary provider, so that it could either provide the services itself, or contract for them. The total level of funds would be set annually, based on the extent

of teacher shortages, and the funds would be allocated to each primary provider based on the shortage experienced in its region.

Funds for the testing of "pilot" service providers (category three) would be allocated to new providers of staff development services, for a limited time period. The state would fund only the start-up costs of such programs. Once established, the providers would compete on an equal basis with other providers of staff development services. If such programs could not find clients for their services, they would "go out of business." The total level of funds for this category would be set annually according to the Legislature's priorities for pilot projects.

Our review indicates that an alternative system such as the one described above would address many of the problems with the current system noted earlier. Hence, we believe, that this and other alternatives should be explored in the course of CPEC's study of staff development programs.

**Recommendation.** We recommend that the Legislature approve the amount requested for the purposes of conducting this study. We further recommend, however, that the Legislature adopt supplemental report language specifying the scope of the study, in order to ensure that (1) the problems described above are addressed and (2) specific recommendations are made in the study. Specifically, we recommend that the Legislature adopt the following supplemental report language:

"The California Postsecondary Education Commission shall contract through an open bid process for a study of staff development programs. The Commission shall convene an advisory group to advise on the scope and direction of the study. The study shall include, but not be limited to, an analysis of and recommendations on the following issues:

1. A description of current funding for staff development programs and recommendations on appropriate funding levels, including:
  - Total funding currently available to school districts for staff development;
  - Funding currently provided for service providers versus service users;
  - Funding currently devoted to the three categories of staff development—"professional development" of teachers and administrators within their current areas of subject expertise; the retraining of teachers and administrators in different areas; and training in specific subject areas; and
  - Recommendations on appropriate funding levels for staff development programs, drawing on current research and a comparison of staff development practices in business and other fields.
2. A description of staff development needs, and alternative models for meeting those needs, including:
  - Identification of staff development needs, including needs in areas which have a shortage of qualified teachers, and curricular areas specified in the statewide graduation requirements;
  - Determination of whether the existing distribution of funds among staff development programs reasonably reflects school districts' staff development needs;
  - Determination of whether the current system is responsive to changing staff development needs;
  - Identification of fields in which unnecessary duplication of services exist; and

**DEPARTMENT OF EDUCATION—Continued**

- An analysis of, and recommendations regarding, alternative models for providing staff development services, (including the alternative system described in the *Analysis of the 1986-87 Budget Bill*), that cost-effectively meet and respond to the changing needs of the state and its school districts.

The contractor shall submit on or before March 1, 1987, a preliminary report to the Chairman of the Joint Legislative Budget Committee, the chairs of the committees and subcommittees which consider education policy and appropriations, and the Director of Finance on these and other issues deemed relevant to the purpose of this study. A final report shall be submitted on or before September 1, 1987."

**a. California Mentor Teacher Program (Item 6100-191-001 (b))***We recommend approval.*

The California Mentor Teacher program was created by SB 813 (Chapter 498, Statutes of 1983) to retain and reward exemplary teachers, and upgrade the skills of new and experienced staff. Under this program, exemplary teachers are designated as "mentors" and are awarded annual stipends of \$4,000. In return, the mentor teachers are expected to perform additional duties such as assisting and guiding other teachers, and developing new curricula.

Under current law, each school district and county office of education is allowed to designate as mentor teachers up to 5 percent of its eligible, certificated classroom teachers (that is, one mentor for every 20 teachers). Districts and county offices participating in the program receive funds for the mentor teacher stipends, and are reimbursed for the necessary costs to operate the program—such as the costs of substitute teachers, and administrative costs—at a rate determined by the Superintendent of Public Instruction, but not to exceed \$2,000 per mentor.

Although the legislation governing the mentor teacher program authorizes districts and county offices to designate up to 5 percent of their teachers as mentors, the budget has never provided sufficient funding to support this maximum participation level. Instead, funding levels were sufficient to permit 2 percent of all teachers to be designated as mentors in 1983-84 and 3 percent to be designated as mentors in 1984-85.

In the current year, 849 school districts and county offices are participating in the mentor teacher program. These local education agencies (LEAs) employ approximately 94 percent of the total number of eligible teachers in the state. In these participating districts, approximately 4 percent of the total number of certificated classroom teachers are designated as mentors—a total of 6,833. This results in a ratio of approximately one mentor for every 25 teachers.

**Governor's Proposal.** The budget proposes a General Fund appropriation of \$45,750,000 for the mentor teacher program in 1986-87. This is an increase of \$1 million over estimated current-year expenditures. The Budget states that this will "allow the SB 813-authorized 5 percent of the State's teachers to receive a mentor teacher stipend of \$4,000."

Our review indicates that the budget provides sufficient funding to achieve this goal *only* if the Superintendent of Public Instruction allocates funds for mentor teacher support costs at a rate of \$1,000 per mentor, instead of \$2,000 per mentor—the rate that has formed the basis for these allocations to date. Assuming that the Superintendent will follow past

practice and continue to allocate support cost funds at the rate of \$2,000 per mentor, we estimate that the budget would permit districts and county offices to designate 4 percent of their teachers as mentors.

To permit the designation of 5 percent of all teachers as mentors while continuing to fund support costs at the \$2,000 rate, a budget augmentation of \$8,540,000 would be needed. (This estimate will be subject to change when the numbers of eligible teachers are updated in April 1986.)

In sum, our review indicates that the budget proposal would provide sufficient funds to continue the level of support provided for the mentor teacher program in the current year, and allow for further expansion in the numbers of participating teachers. On this basis, we recommend that the amount requested be approved as budgeted.

**b. Classroom Teacher Instructional Improvement Program (CTIIP)**  
**(Item 6100-191-001 (d))**

The Classroom Teacher Instructional Improvement Program (CTIIP), established by SB 813, was created as a means for encouraging classroom teachers to improve the quality of instruction. Under the program, the Superintendent of Public Instruction awards each applicant school district funds equal to \$2,000 times 5 percent of the number of permanent, full-time teachers in the district, (excluding teachers in adult education, child care, and regional occupational programs). Teachers employed by these districts may, in turn, apply for grants of up to \$2,000 for use in improving the quality of classroom instruction.

The grants are awarded by district governing boards, based on recommendations made by the district's instructional improvement committee. The committee, which is composed primarily of teachers, reviews all proposals and develops an overall plan for allocating the district's entitlement. The district may also request reimbursement for administrative costs in an amount not to exceed 5 percent of its entitlement for funds.

In the current year, 931 of California's 1,028 school districts are participating in CTIIP. These districts employ approximately 99 percent of the total number of eligible teachers in the state. The current-year appropriation of \$17.1 million represents full funding of the program—it is sufficient to provide each school district in the state with a full entitlement. Hence, we estimate that a very small portion of the appropriation in the current-year will not be used.

The Governor's Budget proposes to appropriate \$17.1 million for CTIIP in 1986-87. The SDE projects that nearly all school districts will participate in the program in the budget year. The department therefore estimates that the program will require the full \$17.1 appropriation in 1986-87.

**Inventory of Improvement Projects Needed**

*We recommend that the Legislature direct the Superintendent of Public Instruction to (1) develop a plan and funding proposal for compiling an inventory of the instructional improvement projects funded through the Classroom Teacher Instructional Improvement Program, (2) submit the plan and funding proposal by, October 30, 1986, to the Department of Finance for approval, and (3) subsequently establish the inventory if it is approved. We further recommend that the Legislature (1) reappropriate the undisbursed balance of the current-year appropriation in Item 6100-490, and (2) adopt Budget Bill language specifying that these funds may be used by the Department of Education to fund the inventory project.*

In 1984-85, the grants awarded to classroom teachers went to support

**DEPARTMENT OF EDUCATION—Continued**

a large number of proposals—approximately 1,000—across a wide variety of subject areas. Currently, information on the projects that result from these proposals is not compiled. Hence, there is no way for teachers in one district to learn about or benefit from projects developed by teachers in another district, nor is there anything to prevent teachers in different districts from independently developing similar projects.

Our analysis indicates that an inventory of the projects developed through the CTIIP would make the program more cost-effective by (1) enabling more teachers to benefit from a single project, and (2) minimizing the number of times the “wheel is re-invented” by teachers in different districts.

Our analysis further indicates that there will be some funds—approximately \$50,000—left over from the current-year appropriation for the CTIIP. These funds could appropriately be used to fund the inventory project described above.

Accordingly, to establish an inventory of CTIIP projects, we recommend that the Legislature adopt the following supplemental report language:

“The Superintendent of Public Instruction shall (1) develop a plan and funding proposal for compiling an inventory of the instructional improvement projects funded through the Classroom Teacher Instructional Improvement Program, (2) submit the plan and funding proposal, by October 30, 1986, to the Department of Finance for approval, and (3) establish the inventory project, if it is approved.”

To provide funds to establish the inventory project, we further recommend that the Legislature adopt the following Budget Bill language in Item 6100-490:

“(—) Item 6100-191-001 (f), Budget Act of 1985, the undisbursed balance for the Teacher Instructional Improvement Grants for the purposes of compiling an inventory of the projects developed under the Classroom Teacher Instructional Improvement Program.

Provisions:

(—) The funds reappropriated from Item 6100-191-001 (f), Budget Act of 1985, shall be spent only upon approval by the Department of Finance. The Department of Finance shall authorize the expenditure of these funds no sooner than 30 days after notification in writing to the chairperson of the committee in each house which considers appropriations and the Chairperson of the Joint Legislative Budget Committee, or not sooner than whatever lesser time the chairperson of the joint committee, or his or her designee, may in each instance determine.”

**c. Teacher Education and Computer Centers (TECCs) (Item 6100-191-001 (f))**

The Teacher Education and Computer Centers (TECCs) were established in 1982–83 as part of the Investment in People program, and were reauthorized by SB 813. There are 15 TECCs statewide. These centers provide regional delivery of staff development services, with an emphasis on mathematics, science, and computer education. In addition, the TECC appropriation supports seven curriculum implementation centers (CICs), a software clearing house, and the Math Retraining Project.

**TECCs Due to Sunset On June 30, 1986**

*We recommend that the Legislature enact urgency legislation extending the sunset date for the Teacher Education and Computer Centers from June 30, 1986 to June 30, 1990.*

The budget proposes a General Fund appropriation of \$12.7 million for the TECCs in 1986-87. This is an increase of \$249,000, or 2 percent over estimated current-year expenditures. Our analysis indicates that although experience with this program is limited, the program is serving its intended purpose. Accordingly, we recommend that if the program is reauthorized, the amount requested be approved as budgeted.

Chapter 1318, Statutes of 1984, establishes a "sunset date" of June 30, 1986 for "local staff development and teacher education and computer centers," and required the Department of Education, the Legislative Counsel, and the Sunset Review Advisory Committee to report to the Legislature by January 31, 1985, on the appropriateness and effectiveness of the program. The law further required the Legislative Analyst to submit findings, comments, and recommendations regarding the program within 90 days of receiving the report.

The Sunset Review Advisory Committee did not submit an evaluation report of local staff development and the TECCs, but instead recommended that the Legislature move the sunset date for these programs from June 30, 1986 to a future date to allow a more comprehensive and meaningful sunset review process. The committee made this recommendation because the TECCs were first authorized in 1983, and a sunset report would have covered only one and one-half years of program activity—an insufficient period on which to base a meaningful evaluation.

We concur with the committee's recommendation. Accordingly, we recommend that the Legislature enact urgency legislation extending the sunset date for the TECCs to June 30, 1990. Without this legislation, the authorization for the TECCs will expire on June 30, 1986.

**d. School Personnel Staff Development Program (6100-191-001 (c))***We recommend approval.*

The School Personnel Staff Development program, established by AB 551 (Ch 966/77), provides grants to individual K-12 schools to implement locally-developed staff development programs. The grants are awarded on a three-year cycle to public elementary and secondary schools. In 1985-86, funding is provided at the rate of \$7.00 per unit of ADA. Grants may be used to support teacher training, including the costs of substitutes, fees, travel, visits to exemplary programs, and stipends for summer training.

Under current law, schools receiving funds under the School Improvement Program (SIP) are not allowed to receive funds under the AB 551 program. Consequently, as SIP funds expand to all elementary schools, AB 551 funds will be granted only to secondary schools. Currently, grants are provided to 493 secondary schools, and 56 elementary schools.

The budget proposes \$3.7 million from the General Fund for the School Personnel Staff Development program in 1986-87. This is an increase of 2 percent (COLA) over estimated current-year expenditures. This will support approximately the same number of grants in the budget year as were provided in the current year.

Our analysis indicates that these programs are serving their intended purpose and, accordingly, we recommend that the amount requested be approved as budgeted.

**DEPARTMENT OF EDUCATION—Continued****e. Bilingual Teacher Training Program (BTTP) (Item 6100-191-001 (e))**

Chapter 1169, Statutes of 1981, established the Bilingual Teacher Training Program (BTTP), to provide training for teachers who are seeking certification as bilingual instructors and have been granted temporary waivers of the certification requirements.

The budget proposes \$851,000 from the General Fund for the BTTP in 1986-87. This is an increase of \$17,000, or 2 percent, above the current-year amount. This funding will support the same level of service provided in the current year.

Under the BTTP, the State Department of Education (SDE) is required to:

- Establish minimum standards and criteria for the program;
- Conduct, or contract with local education agencies to provide, the appropriate training programs; and
- Direct the training programs primarily towards school districts with
  - (a) high concentrations of pupils of limited English proficiency and
  - (b) teachers on bilingual waiver.

In the current year, the SDE is providing grants to ten training sites, which together provide training for 2,000 of the over 5,000 teachers on bilingual waiver.

**Need to Monitor Effect of Recent Legislation on Demand for BTTP Services**

*We recommend that the Legislature direct the Superintendent of Public Instruction, by November 1, 1986, to (1) report on the number of teachers on bilingual waiver who are not served by an approved training program, and (2) develop alternative strategies for serving any teachers identified as not being served.*

Prior to 1984 all teachers on bilingual waiver were required to be enrolled in an approved language, culture, or methodology course which was:

- Offered by an accredited postsecondary institution approved by the Commission on Teacher Credentialing;
- Conducted by the state Bilingual Teacher Training Program; or
- Conducted by a local education agency (LEA).

A further requirement that all courses conducted by local education agencies meet standards and criteria published by the SDE was added by Ch 1204/84 (AB 3777).

Pursuant to the requirements of Chapter 1204, the SDE developed standards and criteria for LEAs operating bilingual teacher training programs, which are similar to those used for the state-funded BTTP.

LEAs offering, or planning to offer, a bilingual teacher training program were required to (1) file a letter of intent to operate a training program, by October 30, 1985, (2) indicate on the Bilingual Teacher Waiver application an assurance that the district is adopting and implementing the standards, and (3) file in the LEA district office, by January 10, 1986, a training plan demonstrating that the program meets SDE standards and criteria. Under the standards, each local training program is required to demonstrate the capacity to train teachers in specified language, culture, and teaching methodology competencies. The district office is to have the training plan on file and available for review upon request by the State Superintendent of Public Instruction.



***Effect of the New Requirements Is Unclear.*** It is difficult to determine what effect, if any, the new standards will have on the number of LEAs offering training courses. It could be, for example, that all of the LEAs currently conducting courses will have to do nothing, or at most simply modify or upgrade their courses, in order to meet the new standards. However, it could also be that some of the LEAs will find it difficult to meet the new standards. If this is the case, there may be a reduction in the number of bilingual training courses offered by LEAs with a corresponding reduction in the number of teachers trained.

In our judgment, the Legislature's intent that all teachers on waiver be enrolled in an approved program can be assured only if there is an adequate number of approved programs available for teachers on bilingual waiver to enroll in.

To ensure that this happens, we recommend that the Legislature adopt the following supplemental report language:

"The Superintendent of Public Instruction, by November 1, 1986, shall (1) report on the number of teachers on bilingual waiver who are not served by an approved training program, and (2) develop alternative strategies for serving any teachers identified as not being served."

#### **Data Needed to Determine Program Cost-Effectiveness**

***We recommend that the Legislature direct the Superintendent of Public Instruction to determine the cost-effectiveness of the various state and local bilingual training programs, and by November 1, 1987 present findings on what programs appear to be the most cost-effective and develop strategies for improving the less effective programs.***

Our review indicates that the state is facing a shortage of fully qualified bilingual teachers. Over the five-year period from 1980 to 1985, for example, the number of limited English proficient pupils requiring Spanish bilingual services grew by 48 percent—from 257,000 pupils in 1980 to 380,000 in 1985. Because sufficient fully-qualified Spanish bilingual teachers are not available, however, there are approximately 5,100 such teachers on waiver in 1985-86.

In order to address this shortage, the state and its local education agencies support a variety of bilingual teacher training programs. These programs provide after-school training for teachers on waiver in order to help them attain certain language, culture, and teaching methodology competencies so that they can pass the Bilingual Certificate of Competence (BCC) exam and earn a bilingual certificate of competence.

Despite the existence of these programs, the passage rate on the BCC exam during 1984-85—the first year in which it was offered—was quite low. Only 72 (10 percent) of the 690 persons taking all three sections of the test qualified for the Bilingual Certificate of Competence. Because data are not collected on the backgrounds of those taking the test (which training program they were enrolled in, the amount of training received, and the level of language competency prior to enrolling in the program), the state is unable to determine which training programs are more effective in helping candidates to achieve bilingual competence.

Given (1) the low passage rate for the BCC exam, (2) the demonstrated shortage of qualified bilingual teachers, and (3) the availability of limited state and local resources for the training of bilingual teachers, it is imperative that the state identify which bilingual teacher training programs are most cost-effective in helping to alleviate the shortage. In order to do this,

**DEPARTMENT OF EDUCATION—Continued**

the state needs to collect data on both the *effectiveness* of the training programs and on their *cost per teacher trained*.

Once these data have been collected and analyzed, the Department of Education should be better able to identify which programs are making the best use of the limited funds available for bilingual teacher training. This information, in turn, could then be used to (1) redirect funding away from programs that are less cost-effective and/or (2) assist less cost-effective programs to improve.

The data on effectiveness should include (1) information on the program, if any, attended by the applicant and (2) some estimate of the test taker's self-assessed language skill proficiency. We believe that this information can easily be obtained by adding these questions to the application form for the BCC examination.

Cost data currently are available for state-operated programs. The state should collect comparable data for district-operated programs.

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

"The Superintendent of Public Instruction shall determine the cost-effectiveness of the different types of state and local bilingual training programs and, by November 1, 1987, present findings on the cost-effectiveness of the different programs and develop strategies for improving the less effective programs."

**f. California International Studies Project (6100-191-001 (i))*****We recommend approval.***

Assembly Bill 2543 (Ch 1173/85) established the California International Studies Project to provide curriculum and staff development in international studies for elementary and secondary school teachers, in collaboration with colleges and universities.

The bill directs the Superintendent of Public Instruction to contract with a public or private institution of higher education to administer the California International Studies Project, which eventually would include eighteen resource centers to train teachers. The bill further declares the intent of the Legislature that six resource centers be established in each of the 1985-86, 1986-87, and 1987-88 years.

Assembly Bill 2543 appropriated a total of \$500,000 from the General Fund to the Superintendent of Public Instruction. This amount consists of (1) \$25,000 to support the implementation costs incurred by the State Department of Education (SDE), and (2) \$475,000 to fund six centers in the current year. In signing the bill, however, the Governor reduced the appropriation by \$475,000, and left \$25,000 to fund the department's costs of implementing the program.

The budget proposes \$480,000 to fund six resource centers in 1986-87. This amount will fund the initial implementation of the program—the establishment of a central institute (\$150,000) and six resource centers (at an average of \$55,000 each).

Our analysis indicates that this funding level is consistent with the intent of the authorizing legislation. The bill specifies that the 18 resource centers be phased in over a three-year period, and that new centers be established contingent upon favorable evaluations of the existing centers. Since the budget year will be the first year in which the program will operate, it is appropriate that six centers (and the central institute) be

established. Because the budget proposes the legislatively-authorized level of funding for this program, we recommend that the amount requested be approved as budgeted.

#### **g. Regional Science Resource Centers**

Assembly Bill 4034 (Ch 1651/84) required the Superintendent of Public Instruction to establish a regional science resource center, to increase educational and training opportunities for teachers and students. The bill appropriated \$675,000 to fund the center in 1984-85, and required the Superintendent to submit (1) an evaluation report on the center to the Legislature and the Governor during hearings on the 1985 Budget Act and (2) a plan for statewide expansion of the center.

In 1984-85, the Superintendent designated the Exploratorium in San Francisco as the regional science resource center, and awarded \$675,000 to this institution. Due to delays in designating the center, however, none of these funds had been expended at the time hearings were held on the 1985-86 Budget Bill. Consequently, the SDE did not submit an evaluation of the center, or a plan for statewide expansion.

To accommodate the delays in implementation, the Legislature reappropriated the funds that had been appropriated in 1984-85. The Legislature also adopted supplemental report language (1) expressing legislative intent that the resource center funded in 1984-85 be funded in 1986-87 and (2) requiring the Superintendent of Public Instruction to submit an evaluation report on the center and a plan for statewide expansion to the Legislature and the Governor during hearings on the 1986-87 Budget Bill.

It is our understanding that the SDE is in the process of completing the evaluation report, and that it will request budget-year funding for the regional science resource center in conjunction with the plan for statewide expansion of the program. We will review the department's evaluation report and funding request when they are submitted, and make recommendations to the Legislature as appropriate.

#### **h. Administrator Training and Evaluation Program (ATEP)**

##### **(Item 6100-191-001 (a))**

Chapter 1388, Statutes of 1982 (AB 3253), 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 (ATEP).

The ATEP consists of one central institute and a number of regional training centers that provide services on a statewide basis. The central institute is made up of full-time and visiting staff from the regional centers. Its primary task is to design and provide training curricula for administrators that can be disseminated through the regional centers. The staff at the regional centers work with client districts to evaluate their needs and adapt the academy-designed training curricula to those needs. In addition, the regional centers assist districts in providing institutional support for trainees in applying what they have learned.

**Funding History.** The ATEP was first funded in the 1984 Budget Act, receiving a General Fund appropriation of \$2 million for 1984-85. Of this amount, however, \$250,000 was reappropriated to the development of new accounting standards through the State Department of Education's Financial Management Advisory Committee (FMAC). Subsequently, the

**DEPARTMENT OF EDUCATION—Continued**

1985 Budget Act reappropriated an additional \$240,000 from the 1984 appropriation for one-time expenditures under the ATEP in 1985–86. As a result of these changes, the program expended a total of \$1,510,000 in 1984–85.

In the 1985 Budget Act, the Legislature appropriated a total of \$4,400,000 for the ATEP. This amount consisted of:

- \$2,000,000 to restore the level of funding originally proposed for the program in 1984–85;
- \$2,160,000 to expand the program and provide a 4 percent cost-of-living adjustment (COLA); and
- \$240,000 for one-time expenditures, reappropriated from the 1984 Budget Act.

From this amount, however, SB 62 (Ch 1149/85) reappropriated \$250,000 for the purposes of training school business personnel. As a result, the ATEP has available a total of \$4,150,000 for expenditure in the current year (\$3,910,000 for ongoing expenditures and \$240,000 for one-time expenditures).

**Governor's Proposal.** The budget proposes a General Fund appropriation of \$4,243,000 for the ATEP in 1986–87. This appropriation is intended to restore the amount originally provided in the 1985 Budget Act for ongoing expenditures (\$4,160,000), and provide a 2 percent COLA (\$83,000).

**Program Overfunded in Budget Year**

*We recommend that the Legislature reduce the appropriation for the Administrator Training and Evaluation program for a General Fund savings of \$142,600, in order to reflect budget-year funding requirements. (Reduce Item 6100-191-001 (a) by \$140,000, and Item 6100-226-001 (r) (1) by \$2,600.)*

The Governor proposes a total of \$4,243,000 to restore the level of funding originally provided for the ATEP's ongoing expenses in the 1985 Budget Act and provide a 2 percent COLA. Our review indicates that this would provide funding in excess of the program's legitimate funding needs.

Following enactment of the 1985 Budget Act, the State Department of Education (SDE) developed a plan for spending \$4,020,000 of the \$4,160,000 that it believed would be available for the ATEP's ongoing expenditures. Specifically, the department proposed to use these funds to provide grants to the 11 regional centers and the central institute, leaving an uncommitted balance of \$140,000. On this basis, the department negotiated grants with the regional centers and the central institute.

With the enactment of SB 62, however, the SDE was forced to change its plans. In order to accommodate the diversion of \$250,000 from the ATEP, the department used the \$140,000 uncommitted balance and reduced the previously agreed-upon grant amounts by a total of \$110,000. As a result, the SDE was able to provide the regional centers and the central institute with only \$3,910,000, rather than \$4,020,000—the level upon which the entities' grant proposals had been based.

Our review indicates that it would be appropriate to restore the base level of funding for the ATEP to the \$4,020,000 level, which the SDE originally identified as the amount needed in 1985–86. We see no justification, however, for increasing the program's base funding to a level that exceeds these identified needs.

Accordingly, we recommend that the Legislature appropriate a total of \$4,100,400 for the ATEP in 1986-87. This will provide \$4,020,000 to restore the program to the identified level of need for 1985-86 plus \$80,400 for a 2 percent COLA. This would result in a General Fund savings of \$142,600.

### **Program Implementation Status**

As we reported in the *Analysis of the 1985-86 Budget Bill*, implementation of the ATEP program has been behind schedule. Although the program received full funding in 1984-85, the first regional centers were not established until April 1985, late in the fiscal year. Furthermore, the central institute was established *after* the regional centers. Since the regional centers largely work off of the training curricula designed by the central institute, the regional centers experienced further delays in "getting off the ground."

In the current year, the ATEP is concentrating on developing eight training curricula modules in each of the following areas of instructional leadership:

- Instructional Mission and Goals;
- Curriculum;
- Instruction;
- Student Progress;
- Professional Development;
- Professional Accountability;
- School Climate and Culture; and
- Parent Involvement.

Staff from the regional centers are spending time at the central institute helping to develop the training programs, as well as conducting various pre-training activities in their regions.

In the budget year, regional center staff and a cadre of trainers will be trained in the eight modules, and intensive training of administrators will begin.

We will continue to monitor the implementation of the ATEP. Once the regional centers actually begin training administrators, we will examine the evaluations of the training, the number of administrators trained, which administrators receive training, and other relevant information, and will report to the Legislature as appropriate.

### **Report Needed on Implementation of Pilot Projects**

*We recommend that the Legislature direct the Department of Education during budget hearings to report on the implementation status of the Pilot Projects for Administrative Personnel.*

The Pilot Projects for Administrative Personnel, first authorized by AB 3253 (Ch 1388/82), provides for the establishment of pilot projects for administrative personnel recruitment and selection. The pilot projects received an appropriation of \$250,000 in the 1984 Budget Act but, because they were not implemented in that fiscal year, the funds were reappropriated for use in 1985-86. We understand that the central institute of the Administrator Training and Evaluation program will conduct the pilot projects through five of the regional centers. As of January 1986, however, (half-way through the 1985-86 fiscal year) none of the five projects had begun.

In appropriating funds for these projects in the 1985 Budget Act, the

**DEPARTMENT OF EDUCATION—Continued**

Legislature intended that the projects be implemented in the current year. Accordingly, to ensure that the projects are implemented, we recommend that the Legislature direct the State Department of Education during budget hearings to report on the status of these pilot projects.

**Reversion of Funds for "Innovative Local Experiments" Warranted**

*We recommend that the Legislature adopt Budget Bill language reverting to the General Fund \$250,000 appropriated in the 1985 Budget Act for Innovative Local Experiments to Strengthen Personnel and Management, because the statutory authority to expend these funds expired on June 30, 1985.*

Senate Bill 813 required the Superintendent of Public Instruction to select up to five "innovative local experiments to strengthen personnel and management" 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 the methods by which personnel are evaluated.

These pilot projects received an appropriation of \$250,000 in the 1984 Budget Act but, because they were not implemented in that fiscal year, these funds were reappropriated for use in 1985-86. The authority for these programs, however, expired on June 30, 1985. Consequently, the State Department of Education (SDE) must seek authorizing legislation if it is to implement the projects and expend the funds in the current year. We understand, however, that the SDE does not intend to seek such legislation.

Accordingly, since the SDE does not have the authority to spend these funds in the current year, we recommend that the Legislature revert these funds to the General Fund, by adopting the following Budget Bill language in Item 6100-495:

"(—) Item 6100-490, Budget Act of 1985, subschedule (7)—Item 6100-191-001 (c), Budget Act of 1984, the undisbursed balance for Pilot Projects to Strengthen Personnel and Management."

**i. School Business Personnel Staff Development Training Program  
(Item 6100-191-001 (g))**

The School Business Personnel Staff Development Training Program, established by Senate Bill 62 (Ch 1149/85), is a five-year program providing in-service training for school business personnel in county offices of education and school districts. The program focuses training on the skills that are necessary to carry out the routine business operations of county offices and school districts, including training in the state system of financial reporting, and recommended budgeting, accounting, business operations, data management, and audit practices.

The State Department of Education (SDE) is directed to:

- Review and assess, for the purposes of establishing a training schedule, the capacity of county offices and school districts to implement recommended business practices;
- Contract with private financial management and accounting firms and other appropriate organizations to provide the training on a pilot basis during the 1986-87 fiscal year; and
- If the pilot project is successful, implement the program on a state-

wide basis during the period beginning July 1, 1988 through July 1, 1991.

The bill reappropriated \$250,000 from the Administrator Training and Evaluation Program (ATEP) in the current year, in order to fund the initial phases of the School Business Personnel Staff Development program. This was considered a one-time source of funding, as the reappropriation required the ATEP to reduce its program in the current year. Hence, the budget proposes a General Fund appropriation of \$250,000 to fund the pilot project phase of the program in 1986-87. This amount is consistent with legislative intent as expressed in the bill.

#### **Budget Bill Language Needed to Authorize Use of Funds for Contracting**

*We recommend that the Legislature adopt Budget Bill language specifying that the funds appropriated under Item 6100-191-001 (g) may be used by the State Department of Education for the purposes of contracting with a private financial and accounting firm to conduct the school business personnel training.*

The SDE requested state operations funds to support the pilot project phase of the School Business Personnel Staff Development Training program in the budget year. The Governor, however, proposes to provide funding for this purpose in Item 6100-191-001—a *local assistance* item. According to staff at the Department of Finance, funding is provided in this item because the goals of the program—providing staff development for local school personnel—are similar to the goals of other programs funded in the same item.

Our analysis indicates that, while the program's goals are similar to those of other staff development programs, the program's method of achieving those goals potentially conflicts with restrictions placed on the use of local assistance funds. Specifically, our analysis indicates that the funds proposed for the budget year will be used, in part, to contract with a private financial management and accounting firm for the development and implementation of staff training. In order to use local assistance funds for this purpose, however, the SDE would have to let such a contract through a *local education agency* (such as a county office of education). This would create an additional layer of administration that is not necessary for the program's operation.

This problem can be avoided if the Legislature adopts Budget Bill language specifically authorizing the SDE to use the local assistance funds for the purpose of contracting with a private firm. In this way, the program (and the funds appropriated for it) will continue to be identified as a local assistance staff development activity, and the SDE will have the flexibility it needs to reduce administrative costs in implementing the program.

Accordingly, we recommend that the Legislature adopt the following Budget Bill language in Item 6100-191-001:

#### **"Provisions:**

— Notwithstanding any other provision of law to the contrary, the amount appropriated under subschedule (g) of this item may be used for the purposes of contracting with a private financial management and accounting firm to develop and implement training for school business personnel pursuant to Chapter 1.5 (commencing with Section 41100) of Part 24 of the Education Code."

**DEPARTMENT OF EDUCATION—Continued****j. Math and Science Teacher Training Grant (Item 6100-128-890)***We recommend approval.*

The federal Education for Economic Security Act, Title II (PL 98-377), established a grant program to improve the skills of teachers and the quality of instruction in mathematics, science, designated foreign languages, and computer education in elementary and secondary schools. Grant funds are provided to supplement state and local resources to improve teacher training, and to provide for in-service training and the retraining of teachers in the fields of mathematics and science. Funds also are available to support special projects to improve student understanding and performance in science, mathematics, foreign languages, and computer technology.

In the current year, the state received a total of \$8.6 million under this program. Of this amount, the California Postsecondary Education Commission (CPEC) received \$2.6 million, and the State Department of Education (SDE) received \$6.0 million.

Of the \$6.0 million received by the SDE, \$5.4 million is being used to fund local assistance grants, and \$0.6 million is being used to support the administrative costs of conducting a needs assessment, providing technical assistance, and allocating grants. Consistent with the requirements of federal law, the local assistance funds will be allocated as follows: (1) \$4.2 million will be disbursed to local education agencies (LEAs) as direct entitlements to supplement and improve in-service training and retraining in mathematics and science, and (2) \$1.2 million will be awarded to LEAs as competitive grants to fund in-service training projects. The SDE will transfer the funds for competitive grants to the CPEC, which will award grants through the process used to distribute the funds it receives under the same program.

The SDE anticipates that it will receive the same grant amount in the budget year as was received in 1985-86. Hence, the budget proposes \$5.4 million in local assistance funds (Item 6100-128-890) for the program in 1986-87. The department anticipates that the funds will be allocated in a manner similar to that used in the current year.

Our review indicates that these federal funds will be expended for appropriate purposes and, accordingly, we recommend that the amount requested be approved as budgeted.

**3. Special Education Programs (Items 6100-006-001, 6100-007-001, 6100-161-001, 6100-161-890, and 6100-162-001)**

California's special education programs include support for (1) the Master Plan for Special Education, (2) state administration, (3) the state special schools for the deaf and blind, and (4) the Southwest Regional Deaf-Blind Center. In 1985-86, approximately 368,000 students who are learning, communicatively, physically, or severely handicapped will be served by special education programs.

During 1986-87, total support for these programs is proposed at approximately \$1.6 billion, of which \$1.1 billion is financed by the state budget. The remaining support is derived primarily from property taxes and local revenue limits. Table 22 shows the expenditures and funding for the Special Education program financed by the state budget in the prior, current, and budget years.



**Table 22**  
**K-12 Education**  
**Special Education Programs**  
**Expenditures and Funding**  
**1984-85 through 1986-87**  
**(dollars in thousands)**

<i>Expenditures</i>	<i>Actual 1984-85</i>	<i>Est. 1985-86</i>	<i>Prop. 1986-87</i>	<i>Change From 1985-86</i>	
				<i>Amount</i>	<i>Percent</i>
1. State Operations					
State Administration .....	\$5,373	\$6,793	\$7,186	\$393	5.8%
Clearinghouse Depository .....	593	593	623	30	5.1
Southwest Deaf-Blind Center .....	171	176	186	10	5.7
Special Schools .....	37,670	41,509	43,188	1,679	4.0
Special Schools Transportation ....	504	529	529	—	—
Subtotals .....	\$44,311	\$49,600	\$51,712	\$2,112	4.3%
2. Local Assistance					
Support for Local Programs .....	\$866,342	\$963,190	\$1,080,508	\$117,318	12.2%
School Success Program .....	—	105	315	210	200.0
Subtotals .....	\$866,342	\$963,295	\$1,080,823	\$117,528	12.2%
Totals .....	\$910,653	\$1,012,895	\$1,132,535	\$119,640	11.8%
<i>Funding Sources</i>					
General Fund .....	\$811,516	\$906,737	\$1,026,534	\$119,797	13.2%
Federal funds .....	96,325	102,194	101,947	-247	-0.2
Reimbursements .....	2,807	3,964	4,054	90	2.3
Special Deposit Fund .....	5	—	—	—	—

The budget requests \$1.1 billion for local assistance to special education programs in 1986-87—an increase of 12.2 percent (\$117.3 million). When combined with local revenues totaling \$535.4 million, this amount will bring total funding for local special education programs to \$1.6 billion in the budget year—an increase of \$137.1 million, or 9.4 percent, over the current-year level. This increase includes (1) \$84.4 million for a 5.78 percent cost-of-living increase and (2) \$50 million to expand existing, or establish new, programs (described below).

#### **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 (SELPA's). 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.

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. Regional services are funded at a uniform reimbursement rate per pupil served.

**Students Served.** Currently, MPSE programs serve approximately 368,000 students with learning and/or physical disabilities, through one of four instructional settings:

**DEPARTMENT OF EDUCATION—Continued**

- **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 or special education classes.
- **Resource Specialist Program (RSP)**—a program that provides instruction and services to pupils who are assigned to regular classroom teachers for the majority of the school day.
- **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 23 displays the distribution of special education students, by general disability and instructional setting, as of December 1, 1984.

**Table 23**  
**K-12 Education**  
**Special Education Enrollment**  
**December 1, 1984**

Placement	Disability				Totals
	Communi- cation	Learning	Physical	Severe	
Designated Instruction and Services (DIS) ..	87,973	7,356	13,287	1,854	110,470
Resource Specialist Program (RSP) .....	1,494	136,487	1,145	1,039	140,165
Special Day Class (SDC) .....	9,404	60,329	7,585	36,971	114,289
Nonpublic Schools (NPS) .....	87	731	118	2,406	3,342
Totals .....	98,958	204,903	22,135	42,270	368,266

**Additional Funding Proposed for Special Education**

The Governor proposes \$60 million to establish new, or expand existing, special education programs. Of this amount, the Governor proposes (1) that \$5 million be "advanced" to the current year through the enactment of urgency legislation, in order to fund additional special education instructional units and (2) that another \$5 million be used to continue funding for these additional units in 1986-87. As a result, the \$60 million augmentation proposed by the budget would increase funding in the budget year by \$50 million over the (augmented) level of funding in the current year.

The \$50 million increases would be allocated for the following purposes:

- **Program Growth**—\$25 million is proposed for further program growth (above the augmented 1985-86 level) in order to serve increasing levels of enrollment;
- **Restoration of Aides**—\$15.9 million would be used to partially restore aide entitlements in special day classes and resource specialist programs. These entitlements were reduced in 1981 by SB 769 (Ch 1094/81) in an effort to reduce program costs;
- **Low-Incidence Fund**—\$2 million would be used to purchase specialized equipment for students who are blind, deaf, or have orthopedic handicaps. The proposal would bring the total amount of state funding provided for this purpose to \$7 million, which would be sufficient

to provide LEAs with approximately \$429 annually for each student with a low-incidence disability;

- **County Office Longer School Day and Year**—\$1.1 million would be used to provide a second year of incentives for county offices of education to increase the length of the school day and year in their special education programs;
- **Infant Programs**—\$5 million would be used to establish new, or expand existing, programs serving handicapped infants. The proposal would bring the total level of state support for infant programs to approximately \$18 million;
- **Model Transition Program**—\$1 million is proposed for a model program to assist the handicapped with their transition from high school to adult life.

Our review of the first four proposals listed above indicates that the requested funding is warranted. Accordingly, we recommend that the amounts requested be approved as budgeted.

The remaining two proposals—\$5 million for expansion of infant programs and \$1 million for a model transition program—are discussed in the analyses which follow.

#### **Special Education Infant Programs**

*We recommend that the Legislature adopt supplemental report language directing the State Department of Education to report to the Legislature, by November 1, 1986, on the cost-effectiveness of different types of infant program service delivery models.*

The state currently spends \$13 million to serve approximately 3,000 handicapped infants, age two and under, in 76 home-based and center-based programs. These programs are operated by school districts or county offices of education.

Infant programs are not available statewide. Parents of handicapped infants living in areas without infant programs usually are referred to another local education agency (LEA) or to a regional center operated by the Department of Developmental Services.

Current law requires LEAs that operated a program in 1980-81 to continue operating their program, unless the program is transferred to another entity. LEAs 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.

State funds are allocated to infant programs based on the number of "instructional units" operated, where each unit corresponds to one special education teacher and up to two aides. Under the provisions of current law, the Superintendent of Public Instruction determines, in accordance with certain enrollment criteria, the number and type of units (SDC, DIS, etc.) for which each program will receive funding.

In 1985-86, the Legislature appropriated \$5 million in expansion funds for infant programs. These funds were used to establish new infant programs, and to increase enrollment in existing infant programs.

The Governor's Budget proposes another \$5 million General Fund augmentation for infant programs. Under the proposal, the total amount expended by the state for infant programs would increase from \$13 million to \$18 million. Of the amount proposed, \$15.7 million would come from the General Fund. Federal funds would make up the remaining \$2.3 million.

**DEPARTMENT OF EDUCATION—Continued**

***Infant Service Delivery Models Need Review.*** There are a variety of models available for delivering educational services to infants. Some programs follow a "home-based" model, in which a special education teacher travels to each infant's home to work with the infant and his or her parents. Other programs are "center-based," in which services are provided to infants in a classroom setting. Some models rely on a combination of center-based and home-based instruction.

Of the total amount of funding provided for infant programs in the current year, 46 percent has been allocated for instructional units providing center-based services. These units are much more costly to operate than units which provide instruction directly in the home, and for this reason, the state provides LEAs with the same amount of funds for operating these units as it provides for operating a special day class (SDC) for older children. LEAs receive, on average, \$71,470 for operating a center-based unit, as opposed to \$42,510 for operating a home-based unit.

Our analysis indicates that the number of center-based units in California is unusually high. Infant programs in other states are predominantly home-based, while almost half of the units funded in California are center-based.

In many cases the operation of center-based units may be programmatically justified. To date, however, little data has been collected by the Department of Education documenting the cost-effectiveness of center-based over home-based instruction. In addition, little study has been given to (1) how *many* infants should be served by each center-based unit, and (2) how often each infant should receive services.

Given the greater cost involved in operating center-based units, more attention needs to be given to ensuring that these units are operated only when necessary. In addition, the standards governing the number of infants to be served by each unit need to be reviewed in order to ensure that these units, when operated, are effectively serving the maximum number of infants possible.

For these reasons, we recommend that the Legislature adopt supplemental report language directing the Department of Education to review the criteria governing the allocation of center-based infant units. In conducting this study, the department should identify cost-effective models of delivering infant services, and evaluate the existing funding criteria against these models. In order to implement this recommendation, the Legislature should adopt the following supplemental report language in Item 6100-161-001:

"The Department of Education shall report to the Legislature, by November 1, 1986, on the cost-effectiveness of different models for operating and funding infant programs. This report should include criteria for determining: (1) under what circumstances center-based infant programs are programmatically justified, (2) the frequency with which infants need to receive services, and (3) the staffing requirements of infant programs, including the need for aides."

**Funding for Model Transition Program Not Justified**

***We recommend that the Legislature delete \$1 million requested from the General Fund to establish a model transition program, because the program requires the enactment of authorizing legislation which specifies its scope. (Reduce Item 6100-161-001 by \$1,000,000.)***

According to the State Department of Education, a high proportion of special education students fail to obtain sustained employment after they leave high school, or to make a successful transition to higher education. Current law does not require school districts to assist such students once they have graduated or left school for other reasons. Many of these students, however, become eligible to receive state-funded services through the Department of Rehabilitation.

The budget proposes that \$1 million be appropriated to the State Department of Education (SDE) in 1986-87 for use in developing and implementing a model transition program to assist handicapped students adjust to adult life. According to SDE, these funds would be used to (1) provide grants to school districts to design model programs and (2) hire consultants to conduct research and training.

The Budget Bill does not specify what the scope of the K-12 education system's responsibilities towards handicapped students who have left high school would be under the proposed program. Instead, the budget proposal would delegate this determination to the Department of Education. The department would determine the exact extent of the education system's additional responsibilities in this area.

As a result, we cannot identify either what the proposed transition program's specific, long-range objectives would be or what the program's funding needs would be in subsequent years. Unless the scope of such a program is more clearly specified by the Legislature, however, costs in future years will far exceed the \$1 million proposed by the Governor.

For these reasons, we recommend that no funds for this program be appropriated until specific legislation is enacted which (1) specifies the exact goals of the program and (2) defines the scope of the Department of Education's programmatic responsibilities, and how these relate to the responsibilities of the Department of Rehabilitation. We make this recommendation without prejudice to the issue of whether such a transition program is *needed*. Rather, we believe that authorizing legislation is necessary in order to clarify what the Legislature expects the department to accomplish in the area of transition, and, more generally, to strengthen the Legislature's control over funding and policy-making in this area.

Accordingly, we recommend that the Legislature delete the \$1 million requested by the Governor for this program. Consistent with this recommendation, we further recommend that the Legislature delete Budget Bill language in provision 8 of Item 6100-161-001.

#### **Special Education Funding Model Needs Review**

*We recommend that the State Department of Education present to the Legislature, at the time of budget hearings, a long-range plan for collecting and analyzing special education cost data.*

Chapter 797, Statutes of 1980, established the basic system used to fund special education. Under this system, local education agencies (LEAs) receive funds on the basis of "instructional personnel service units," where each unit is composed of one special education teacher and up to two aides. For every state-authorized unit operated, an LEA receives a specified amount of funds, known as its "unit rate," which is intended to compensate the LEA for the cost of teacher and aide salaries. Each LEA also receives a certain amount of "support" funds per unit. These funds are intended to reimburse the LEA for the cost of providing various support services, such as psychological testing or counseling, and to pay for the LEA's administrative costs.

**DEPARTMENT OF EDUCATION—Continued**

The current funding model assumes that the amount historically spent by the LEA for special education provides a good measure of the LEA's salary and support costs. Specifically, the model, which was implemented in 1980-81, uses each LEA's 1979-80 expenditures as a proxy for local costs, and bases funding rates on these levels. Because LEAs spent varying amounts on teacher salaries and support services in 1979-80, LEAs have been assigned different funding rates.

***Problems with the Funding Model.*** Our analysis indicates that there are at least three problems with the current funding model.

*First*, the data on which funding rates were based are generally recognized as inaccurate. There were wide discrepancies in how LEAs accounted for costs in 1979-80, and those with poorly-developed accounting systems undoubtedly provided inaccurate cost information. As a result, these LEAs have been assigned funding rates which are too high or too low relative to their actual costs.

*Second*, even if the 1979-80 expenditure data had been accurate, it is not clear that data on *expenditures* appropriately measures local costs. This is because expenditure levels may reflect differences in the amount of services provided to each pupil, rather than differences in the cost of providing a given level of service. When special education funding rates were originally computed, no attempt was made to standardize reported costs by quantity and quality of services provided.

*Third*, the costs which LEAs currently face may differ from those faced in 1979-80. Salary costs, in particular, may have changed significantly since 1979-80, due to inflation and changes in special education staffing patterns.

***Current Data Collection Efforts.*** In order to obtain more accurate data on the costs of providing all education services, including special education, the Legislature has passed AB 2557 (Ch 115/85). This measure requires LEAs, commencing in 1985-86, to utilize a standard cost-accounting procedure developed by the Department of Education. The use of this accounting system is intended to ensure that, in the future, LEAs will account for expenditures in a uniform and agreed-upon manner. The department intends to collect updated expenditure data generated from the new accounting system beginning in the fall of 1986.

***Further Data Collection Efforts Needed.*** While the collection of updated expenditure data will help the Legislature address the problem of funding rates for special education, it will not solve two of the problems with the current funding model.

*First*, the collection of better data will not enable the Legislature to determine what it costs for LEAs to provide a "standard" level of service to special education students. For example, if the data indicate that one school district spends forty percent of its funding per pupil on support services, while another district spends only twenty-five percent of its funds for this purpose, the Legislature will not be able to determine whether the difference is due to (1) differences in local costs or (2) differences in the scope of support services provided to students.

In order for the Legislature to determine more accurately the actual cost of providing special education, the expenditure data must be standardized in terms of the quantity and quality of services provided. This will require that the department (1) systematically analyze the expenditure data in order to identify those districts with expenditure levels significantly above-average or below-average, (2) collect additional data from

those districts on the amount and type of support services they provide to students with comparable types of disabilities, in order to determine if variation in service levels accounts for the differences in expenditure levels, and (3) develop a methodology for determining which variations in expenditures are actually due to differences in costs, as opposed to differences in service levels.

*Second*, the collection of data at a single point in time will not shed much light on how these costs will change in the future. Additional data collection and analysis may be required in order to identify new trends that may warrant a change in funding rates.

**Long-Range Plan Needed.** To date, neither the Governor nor the Department of Education has come forward with a proposal that would allow the Legislature to correct these two deficiencies.

Accordingly, we therefore recommend that the State Department of Education present to the Legislature, at the time of budget hearings, a long-range plan for (1) analyzing local cost data, (2) collecting additional data, as needed, and (3) developing alternatives, based on this data, to the existing special education funding formulas. This plan should outline general time frames for carrying out the required tasks. It should also include an assessment of what additional resources would be required in order to complete these tasks.

We will provide the Legislature with our assessment of the department's proposal, as appropriate.

#### **Proposed Regulations on Physical Education Should Not Be Adopted**

*We recommend that the Legislature adopt supplemental report language directing the State Board of Education not to adopt proposed amendments to the regulations governing adaptive physical education, because these amendments could result in major state costs and therefore should be submitted to the Legislature for its approval in the form of a bill.*

Under current federal and state law, students in special education whose disabilities prevent them from participating in their school's regular physical education (P.E.) program are entitled to receive specialized instruction, adapted to their particular handicaps. Adaptive physical education usually is provided to pupils who are severely disabled, or who have orthopedic handicaps. Funding for these services is allocated through the special education funding mechanism.

Students who are not proficient in physical education because they lack motor coordination are not legally entitled to receive special education services in adaptive P.E. This is because state regulations do not specifically define such a condition as a handicap. School districts, however, may offer adaptive physical education to students lacking motor coordination, using their own general purpose education funds.

**Proposed Regulations.** The State Board of Education is considering the adoption of regulations that would define lack of motor coordination as a handicap. Under these regulations, any student who is (1) referred to a special education program for an assessment and (2) scores at or below the 7th percentile on a standardized test of motor skills, would be eligible for special education services. Furthermore, the proposed regulations require that the instruction be provided only by a teacher with a credential in adaptive P.E.

If these regulations are adopted, in most cases districts would be legally required to provide students meeting the criteria set forth above with adaptive P.E.—a very expensive form of instruction. (We have requested

**DEPARTMENT OF EDUCATION—Continued**

an opinion from Legislative Counsel on this matter.) Under the terms of Article XIII B of the California Constitution, the *state* would be required to reimburse school districts for these costs.

**Cost Estimate.** We cannot estimate what the increase in special education enrollments would be if these regulations take effect. Obviously, however, up to seven percent of public school enrollment statewide *could* qualify for adaptive P.E. services. If this happened, *the cost to the state could reach \$150 million annually.*

**Major Policy Question.** We do not deny that many students with underdeveloped motor skills probably could benefit from adaptive physical education instruction. The issue, however, is whether this type of instruction should be mandated by the board, thereby committing the Legislature to appropriate up to \$150 million, or should the Legislature itself be the one to make (or decide not to make) this decision.

**Recommendation.** We believe that the State Board of Education is not the appropriate body to resolve a policy issue of this magnitude. This is a decision which should only be made by the Legislature, based on its priorities for the use of limited state funds.

Accordingly, we recommend that the Legislature adopt the following supplemental report language prohibiting the State Board of Education from adopting regulations affecting eligibility standards for adaptive physical education:

“The State Board of Education shall not adopt amendments or additions to Sections 3030(f) or 3051.5(b) of Title V of the California Administrative Code relating to adaptive physical education that would increase eligibility for special education or would otherwise result in increased costs to local education agencies. It is the intent of the Legislature that if such changes are made, they be made by the Legislature through the enactment of legislation.”

**b. Federal Public Law 94-142—Special Education (Item 6100-161-890)*****We recommend approval.***

The Education for All Handicapped Children Act (P.L. 94-142), enacted in 1975, established and funded 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.

The budget estimates that California’s P.L. 94-142 award for 1986-87 will be \$97.9 million—the same amount received in 1985-86. Of this amount, the budget proposes to allocate \$79.2 million for local assistance, \$12.4 million for state discretionary programs, and \$6.3 million for state administration.

Under the provisions of Chapter 797, Statutes of 1980 (SB 1870), all federal P.L. 94-142 funds disbursed as local assistance are used to offset the amount of special education funding required from the state. Federal funds received by districts through the state discretionary programs, however, do not offset state costs. Consequently, any reduction in the \$79.2 million budgeted for *local assistance* would result in a special education funding deficit for 1986-87, even if the reduction were made in order to increase the amount available for discretionary programs.

The budget also anticipates federal grants of (1) \$2.4 million for the Pre-School Incentive Grant program, (2) \$240,000 for the Southwest Regional Deaf-Blind Center, and (3) \$657,000 for Handicapped Personnel Preparation Grants.



**State Discretionary Programs.** State discretionary programs provide either (1) direct services to handicapped students through state- and locally-administered programs, or (2) support services to special education staff and administrators.

- **Direct Services** include infant programs for children aged 0 to 3 years; vocational education model sites; assessment centers at the state special schools and California Youth Authority; and model sites to serve students from different linguistic and cultural backgrounds.

- **Support services** 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.

The budget proposes that \$12.4 million be made available for direct or indirect expenditures by the State Department of Education for state discretionary programs. This is an increase of \$380,000 over estimated expenditures for discretionary programs in 1985–86, and reflects support for the Timpany Center, which provides educational and recreational services to handicapped individuals in Santa Clara county. (In the current year, funding for the Timpany Center is provided in the amount appropriated for special education local assistance. Because these funds have merely been shifted in the budget to the amount proposed for discretionary programs, the \$380,000 increase does not represent an increase in the total amount proposed for special education.)

**Contingency Plan for Unanticipated P.L. 94-142 Funds.** The budget estimates that the state will receive a total of \$97,860,000 under the federal P.L. 94-142 program in 1986–87. The exact amount of California's award, however, will not be known until July 1986. Should the amount of funds received exceed the amount anticipated, the budget proposes that up to 5 percent of the excess funds be allocated to state operations, and that the remainder be used to fund local entitlements.

Our review indicates that the proposed allocation of P.L. 94-142 funds is reasonable and, accordingly, we recommend that the request be approved.

#### **c. Alternatives to Special Education—School Success Program (6100-162-001)**

*We recommend approval.*

Chapter 1530, Statutes of 1985 (SB 1256), created the Early Intervention for School Success Program. The goal of this program is to train school personnel in the skills necessary to identify and treat students between the ages of four and seven who show signs of developing learning disabilities, so as to reduce the probability that these children will have to be placed in special education later on. The measure directs the Superintendent of Public Instruction to choose one county superintendent of schools to develop a statewide plan for implementing the program in 200 schools within the state by June 1991. The measure appropriated \$105,000 in the current year for administrative costs associated with establishing the program.

As shown in Table 22, the budget proposes that \$315,000 be appropriated from the General Fund for this program in 1986–87, an increase of 200 percent over the current-year level. This amount presumably would be used to provide grants to schools which choose to participate in the program.

**DEPARTMENT OF EDUCATION—Continued**

Our analysis indicates that the funding level proposed for this program in the budget year is consistent with the intent of the legislation which established the program. Accordingly, we recommend that the amount requested be approved as budgeted.

**d. 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 1986-87, these schools will serve approximately 875 students who are deaf and 98 students who are blind. In addition, approximately 442 students with neurological handicaps will receive diagnostic assessment services.

Table 24 displays the enrollment and cost per student in the six special schools for the prior, current, and budget years.

**Table 24**  
**K-12 Education**  
**Enrollment and Cost per Student in Special Schools**  
**1984-85 through 1986-87**

	<i>Students Served</i>			<i>Cost Per Student</i>		
	<i>Actual</i> 1984-85	<i>Est.</i> 1985-86	<i>Prop.</i> 1986-87	<i>Actual</i> 1984-85	<i>Est.</i> 1985-86	<i>Prop.</i> 1986-87
School for the Blind, Fremont:						
Blind .....	6	10	13	\$31,500	\$39,500	\$36,769
Multihandicapped blind .....	87	78	85	41,483	51,885	48,353
School for the Deaf, Fremont:						
Deaf .....	485	477	465	20,311	22,258	24,062
Multihandicapped deaf .....	64	60	60	29,125	31,917	34,500
School for the Deaf, Riverside:						
Deaf .....	293	252	240	25,594	32,532	34,400
Multihandicapped deaf .....	111	102	110	32,631	41,480	43,855
Diagnostic School, San Francisco:						
Short-term assessment .....	134	147	152	2,642	2,619	2,671
Long-term assessment .....	46	50	55	30,196	30,220	29,018
Follow-up service .....	203	200	200	310	345	365
Diagnostic School, Fresno:						
Short-term assessment .....	150	145	145	3,473	3,759	3,938
Long-term assessment .....	39	40	45	35,590	36,375	33,911
Follow-up service .....	107	105	105	1,075	1,152	1,210
Diagnostic School, Los Angeles:						
Short-term assessment .....	127	127	145	3,512	3,709	3,455
Long-term assessment .....	50	50	50	28,920	30,520	32,500
Follow-up service .....	90	90	90	856	911	967

As shown in Table 22, the budget proposes \$43,188,000 for the state special schools in 1986-87. This is a net increase of \$1,679,000, or 4 percent, above the current-year funding level. This amount reflects (1) a \$2.0 million increase for employee compensation, (2) a reduction of \$400,000 in General Fund expenditures reflecting declining enrollments at the State Special Schools for the Deaf in Riverside, and (3) an increase of \$90,000 in federal funds for special projects.

Our review indicates that the amount requested is reasonable and, accordingly, we recommend that this amount be approved.

**e. 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 \$529,000 be made available to the state special schools for the purpose of providing transportation services to residential students in 1986-87—the same amount as in the current year.

Our review indicates that the amount requested is reasonable and, accordingly, we recommend that it be approved.

**4. Vocational Education Programs**

Table 25 summarizes funding for all vocational education programs, including Regional Occupational Centers and Programs, in the prior, current, and budget years. As the table shows, the budget proposes total expenditures of \$311.7 million for state operations and local assistance in connection with vocational education programs during 1986-87. Funding for these programs is discussed in greater detail below.

**Table 25**  
**K-12 Education**  
**Funding for Vocational Education Programs**  
**1984-85 through 1986-87**  
**(dollars in thousands)**

	<i>Actual</i> 1984-85	<i>Est.</i> 1985-86	<i>Prop.</i> 1986-87	<i>Change</i> <i>From 1985-86</i>	
				<i>Amount</i>	<i>Percent</i>
State Operations					
General Fund .....	\$2,152	\$2,211	\$2,393	\$182	8.2%
Federal funds <sup>a</sup> .....	5,158	5,359	5,536	177	3.3
Special Deposit Fund .....	60	—	—	—	—
Reimbursements <sup>b</sup> .....	1,670	2,109	2,158	49	2.3
Subtotals .....	\$9,040	\$9,679	\$10,087	\$408	4.2%
Local Assistance					
Regional Occupational Centers/Programs:					
General Fund .....	\$177,597	\$203,894	\$218,654	\$14,760	7.2%
Other Programs:					
General Fund .....	3,820	4,230	4,100	-130	-3.1
Federal funds .....	57,545	63,215	63,215	—	—
Reimbursements .....	8,504	15,675	15,675	—	—
Subtotals .....	\$247,466	\$287,014	\$301,644	\$14,630	5.1%
Totals .....	\$256,506	\$296,693	\$311,731	\$15,038	5.1%
Personnel Years .....	98.3	97.2	93.3	-4	-4.0%

<sup>a</sup> Includes \$27.2 million transferred to the Chancellor's Office of the California Community Colleges for postsecondary vocational education programs.

<sup>b</sup> Includes reimbursements from the Employment Development Department for federal Job Training Partnership Act programs.

**DEPARTMENT OF EDUCATION—Continued****a. Regional Occupational Centers and Programs (ROC/Ps)  
(Item 6100-102-001)**

Regional Occupational Centers and Programs (ROC/Ps) provide vocational training to high school pupils and adults. There are 68 ROC/Ps in the state. Of these, 38 are operated by county superintendents of schools, and 30 are operated by districts (or a consortium of districts and counties). In 1984-85, these programs enrolled 90,710 pupils in average daily attendance (ADA), consisting of 59,602 high school ADA and 31,108 adult ADA.

Courses offered by ROC/Ps 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 \$219 million for ROC/Ps in 1986-87—an increase of \$15 million, or 7.2 percent, over estimated current-year expenditures. This increase reflects (1) a \$3.9 million increase to fund enrollment growth of 2.0 percent, (2) a \$12.0 million increase to fund a 5.78 percent cost-of-living increase, (3) a reduction of \$500,000 that reflects a one-time appropriation in the current year for the GAIN program (established by Ch 1025/85), and (4) a \$600,000 decrease in General Fund support resulting from increased property tax revenues.

**Technical Issue: Inflation Adjustment Overbudgeted**

*We recommend that the Legislature reduce the amount budgeted from the General Fund for the ROC/P cost-of-living adjustment by \$220,000 in order to correct a technical budgeting error. (Reduce Item 6100-226-001 by \$220,000.)*

The Governor proposes a 5.78 percent cost-of-living adjustment (COLA) for Regional Occupational Centers and Programs, the same COLA proposed for school apportionments. According to the Department of Finance (DOF), this adjustment will cost \$12.0 million in 1986-87.

Our review indicates the COLA percentage was applied *twice* to the \$3.9 million proposed for ROC/P growth, causing the amount proposed for the ROC/P COLA to be overfunded by \$220,000. We therefore recommend that the Legislature delete this amount from Item 6100-226-001, for a General Fund savings of \$220,000.

**b. Vocational Education Student Organizations (Item 6100-118-001)**

*We recommend approval.*

There are five vocational education student organizations in California. The Governor proposes \$500,000 to continue the current-year level of support for these organizations in the budget year.

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, 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 that the amount be approved as budgeted.

**c. Peninsula Academies Model Programs (Item 6100-166-001)***We recommend approval.*

The Peninsula Academies Model program is an industry-school partnership that offers training in electronics and computer technology to educationally disadvantaged high school students. The program was first implemented in the fall of 1981 by the Stanford Mid-Peninsula Urban Coalition and the Sequoia Union High School District (SUHSD) in San Mateo county. In the current year, SUHSD will conduct the program at two high school sites, enrolling approximately 184 students in grades 10 through 12.

Initial funding for the program came from private foundation grants and general purpose education revenues available to the SUHSD. Chapter 1568, Statutes of 1984, however, authorized direct General Fund support for the program, commencing in 1984-85.

Chapter 1568 also (1) expanded the program and authorized the creation of ten new academies, (2) requires the Superintendent of Public Instruction to apportion \$50,000 per academy (a total appropriation of \$600,000 for 12 academies) in 1985-86 and 1986-87, and (3) specifies that all grants must be matched through cash or in-kind contributions by participating districts and companies.

The budget includes \$600,000 from the General Fund for this program in the budget year. Because the program is being implemented in a manner consistent with the Legislature's intent, as expressed in Ch 1568, we recommend that the amount be approved as budgeted.

**d. Agricultural Vocational Education Incentive Program (Item 6100-167-001)**

Senate Bill 813 (Ch 498/83) created the Agricultural Vocational Education Incentive program to improve the quality of approved agricultural vocational education programs. Under this program, grants are made on a dollar-for-dollar matching basis, to local school districts operating agricultural vocational education programs for the purpose of purchasing or leasing equipment (defined as non-salary items). The Superintendent of Public Instruction may waive the matching requirement if it would create a financial hardship for the district. In 1984-85, 289 schools—or 91 percent of the 318 schools offering agricultural vocational education programs—applied for and received grants.

The budget proposes \$3 million for the program in 1986-87. This amount would continue the program at the current-year funding level.

**Report on Program Equipment Needs**

As agricultural vocational education programs acquire the equipment they need, the total amount of state funds needed for equipment purchases should decrease to the level necessary to fund the ongoing costs of equipment maintenance and replacement. In order to determine the most appropriate level of state funding for the incentive program, the Legislature directed the State Department of Education to conduct a study on the amount of additional funding needed to (1) provide school districts with an appropriate inventory of equipment, and (2) maintain this inventory, once it has been established.

The Department submitted its report to the Legislature on September 30, 1985. In preparing the report, the department collected estimates made by districts on the cost of fully equipping their agricultural education programs. Based on these estimates, the department reported that the statewide need for additional equipment is approximately \$42.4 mil-

**DEPARTMENT OF EDUCATION—Continued**

lion. In addition, the department reports that districts need \$4.8 million on an annual basis to maintain and replace this equipment.

Our review indicates that the method used by the department to determine how much additional state funding is needed for the Agricultural Vocational Education Incentive programs, is not analytically sound. In essence, the department asked districts to compile a "wish list" of additional equipment they would like to have. By soliciting information in this way, the department made no meaningful effort to distinguish between "demand" and "need."

We believe that it is possible to obtain a much more realistic estimate of need. This could be done, for example, by asking each district how much funding for additional equipment it would need, assuming that it has to pay 50 percent of what the equipment would cost (as required by the program).

In sum, we do not believe any valid conclusions can be drawn from the data contained in the department's report. In terms of filling the information gap identified by the Legislature, the report is worthless.

**Matching Requirement Needs Clarification**

*We recommend that the Legislature adopt Budget Bill language clarifying the manner in which Agricultural Vocational Education Incentive funds shall be matched by school districts.*

Under the provisions of SB 813, school districts receiving Agricultural Vocational Education Incentive funds are required to match these funds on a dollar-for-dollar basis.

The match can take the form of cash or in-kind contributions toward the cost of equipment. Under the terms of SB 813, equipment is defined as "any non-salary item of expenditure."

The intent behind this requirement is to *leverage* state funds in order to increase the total amount spent for equipment and other program improvements. Otherwise, why require a local match?

Some districts have used expenditures on such things as instructional supplies and travel to "match" state funds. In many cases, these expenditures are nothing more than the on-going costs of maintaining a vocational education program; they are not expenditures for program "improvements." This defeats the purpose of the matching requirement, which is to induce districts to *increase* local expenditures on agricultural equipment.

In order to ensure that the matching requirement accomplishes the Legislature's intended purpose, we recommend that the Legislature require districts to certify that funds used as a match for state incentive grants are over and beyond what each district normally spends on its agricultural education program. To accomplish this, we recommend that the Legislature adopt the following Budget Bill language in Item 6100-167-001:

"As a condition of receiving funds appropriated in this item, a school district shall certify to the Superintendent of Public Instruction that both these funds and the amount of required local matching funds shall be used to supplement, and not to supplant, the district's regular, ongoing expenditures for its agricultural vocational education program. The Superintendent of Public Instruction shall adopt appropriate accounting procedures, rules, and regulations to ensure that this requirement

is complied with. Nothing in this provision shall be construed as limiting the authority of the Superintendent to waive the local matching requirement pursuant to Section 52461.5(b) of the Education Code."

**e. School-Based Programs (Item 6100-166-890)**

Under federal law, local educational agencies receive support for their school-based vocational education programs that are provided as part of the regular secondary school curriculum.

The new federal Vocational Education Act of 1984, which took effect on July 1, 1985, made major changes in federal policy with regard to vocational education. The act shifts the responsibility for basic vocational education from local districts to the state.

The budget proposes \$63.2 million from the Federal Trust Fund for local assistance on behalf of basic vocational education in 1986-87—the same amount provided in the current year.

Under the "old" vocational education act, basic grant funds could be used to improve, expand, and/or maintain existing programs. Under the new act, 43 percent of the basic grant funding will support only the expansion or improvement of programs, not maintenance, and 57 percent will support programs for target populations with special needs. The target populations include the handicapped; the disadvantaged; adults who are in need of training and retraining; single parents or homemakers; men and women who are entering nontraditional occupations; individuals with limited English proficiency; and individuals who are incarcerated in correctional institutions.

**Disproportionate Allocation of Grant Funds**

*We recommend that the Legislature adopt supplemental report language directing the State Department of Education to revise its definition of a "large" district for the purpose of allocating federal vocational education funds, because under the current definition, some districts are not receiving a proportional share of these funds.*

The State Department of Education has chosen to allocate \$12.5 million of the federal funds available for vocational education to local education agencies (LEAs) on a competitive grant basis. These grants must be used for equipment or other program improvement: under the terms of the Vocational Education Act, the funds may not be used to support ongoing programs. Most of the grants are provided to LEAs on a one-year only basis.

Because larger districts may have a competitive advantage over smaller districts in their ability to vie for grant funds, SDE allows districts of varying size to compete for these funds separately. In the current year, SDE set aside 4 percent of the grant funds specifically for "small" districts, and 18 percent for "medium-sized" districts. The remaining 77 percent was allocated to "large" districts. (These percentages reflect each category's share of statewide high school and ROC/P enrollment.)

The SDE's policy of conducting separate grant competitions based on district size is not unreasonable. We find, however, that the criteria which the SDE used in categorizing districts as small, medium, or large may have been unfair to some districts. Specifically, SDE defined a "large" district as one with combined high school and ROC/P enrollments exceeding 1,500 units of average daily attendance (ADA). Under this definition, districts with enrollment levels of 1,500 ADA are forced to compete with districts as large as 50,000 ADA; districts at the lower range of the "large"

**DEPARTMENT OF EDUCATION—Continued**

category, therefore, are still placed at a competitive disadvantage in applying for VEA grants.

According to data provided by SDE, districts with enrollment levels between 1,500 and 5,000 high school and ROC/P ADA constitute 31.7 percent of statewide ADA of this type in the current year, but are receiving only 23.4 percent of the grant funds. Districts in this size category are therefore not receiving their "fair share" of the grant funds.

In order to correct this inequity, we recommend that the Legislature direct the State Department of Education to conduct a separate grant competition for districts with between 1,500 and 5,000 high school and ROC/P ADA. To do this, we recommend that the Legislature adopt the following supplemental report language in Item 6100-166-890:

"For the purpose of awarding federal vocational education grants, the State Department of Education shall conduct a separate competition for districts with enrollment levels between 1,501 and 5,000 units of average daily attendance."

**f. Federal Job Training Partnership Act (Item 6100-166-001—reimbursements)**

The SDE budget includes \$15.7 million in reimbursements from the Employment Development Department (EDD) in 1986-87. These reimbursements, which are from the federal Job Training Partnership Act, support training for economically disadvantaged youth and adults. (For our analysis of and recommendation on this item, please see our analysis of the proposed budget for EDD.)

**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 poverty, language barriers, or cultural differences, or who experience learning difficulties in specific subject areas. Compensatory education programs include federal ECIA Chapter 1, Economic Impact Aid, federal refugee and immigrant education programs, Indian education, and the Miller-Unruh Reading Programs.

Table 26 displays local assistance expenditures from the General Fund and federal funds for these programs in the prior, current, and budget years. The budget proposes total state expenditures of \$220.5 million for compensatory education local assistance during 1986-87—an increase of \$3.8 million, or 1.7 percent, over estimated expenditures during the current year. In addition, the budget proposes \$422.8 million in expenditures from federal funds for compensatory education local assistance—a slight decrease from the amount available in the current year.

**a. 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, provides support for compensatory education services to educationally disadvantaged students. Both the federal ECIA Chapter 1 and the state Economic Impact Aid (EIA) programs funds a variety of supplemental educational services for children who have difficulty mastering basic skills and 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 26**  
**K-12 Education**  
**Funding for Compensatory Education Programs**  
**Local Assistance**  
**1984-85 through 1986-87**  
**(dollars in thousands)**

	<i>Actual</i> 1984-85 <sup>a</sup>	<i>Est.</i> 1985-86 <sup>b</sup>	<i>Prop.</i> 1986-87	<i>Change From</i> 1985-86	
				<i>Amount</i>	<i>Percent</i>
<b>General Fund:</b>					
Economic Impact Aid.....	\$187,502	\$196,252	\$198,902	\$2,650	1.4%
Miller-Unruh Reading Program .....	18,166	19,290	20,405	1,115	5.8
Indian Education .....	1,166	1,213	1,237	24	2.0
Subtotals .....	\$206,834	\$216,755	\$220,544	\$3,789	1.7%
<b>Federal Funds:</b>					
ECIA Chapter 1 .....	\$358,241	\$403,280	\$403,232	-\$48	—
Refugee and Immigrant Programs ..	17,616	19,837	19,581	-\$256	-1.3
Subtotals .....	\$375,857	\$423,117	\$422,813	-\$304	-0.1%
Totals.....	\$582,691	\$639,872	\$643,357	\$3,485	0.5%

<sup>a</sup> Includes prior year balance of \$625,000.

<sup>b</sup> Includes prior year balance of \$1,250,000.

Table 27 displays federal funding for Chapter 1 in the prior, current, and budget years. The budget proposes total expenditures of \$403.2 million for Chapter 1 local assistance in 1986-87. Of this amount, \$323.4 million will be allocated to school districts for compensatory education programs, and \$79.8 million is proposed for migrant education programs. The budget also proposes (in Item 6100-001-890) to allocate \$4.3 million for the administration of all Chapter 1 programs and \$1.3 million for administration of the migrant education program.

**Table 27**  
**K-12 Education**  
**Federal ECIA Chapter 1 Expenditures**  
**1984-85 through 1986-87**  
**(dollars in thousands)**

	<i>Actual</i> 1984-85	<i>Est.</i> 1985-86	<i>Prop.</i> 1986-87	<i>Change From</i> 1985-86	
				<i>Amount</i>	<i>Percent</i>
<b>State Operations</b>					
Chapter 1 administration .....	\$3,156	\$4,336	\$4,363	\$27	0.6%
Migrant Education program <sup>a</sup> .....	1,077	1,225	1,302	77	6.3
Subtotals .....	\$4,233	\$5,561	\$5,665	\$104	1.9%
<b>Local Assistance</b>					
Chapter 1 <sup>b</sup> .....	\$284,582	\$323,415	\$323,415	—	—
Migrant Education .....	73,659	79,865	79,817	-48	-0.1%
Subtotals .....	\$358,241	\$403,280	\$403,232	-\$48	—
Totals .....	\$362,474	\$408,841	\$408,897	\$56	—

<sup>a</sup> The SDE Migrant Education Unit is supported by both Chapter 1 administrative funds and Migrant Education program funds. Total proposed allocation for migrant education state operations in 1986-87 is \$2,131,000.

<sup>b</sup> Excluding migrant education.

**DEPARTMENT OF EDUCATION—Continued**

**Migrant Education.** The migrant education program was established in 1965 to provide supplementary educational and health services to children of migrant and formerly migrant workers in agriculture, fishing, and agriculture-related seasonal employment. In the current year, the State Department of Education (SDE) will distribute migrant education funds primarily through 13 regional offices which are operated through certain county offices of education. The regional offices provide funds and/or services to school districts which enroll migrant students. In addition, five school districts, at their request, operate migrant education programs independent of a regional office, and receive their funds directly from the SDE.

Typically, regional offices and school districts use migrant education funds to employ additional teachers and aides to work directly with migrant pupils during the school year and to provide special summer school programs. Regional offices 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.

The SDE indicates that 139,000 pupils will be served by the migrant education program in 1985-86. In addition, an estimated 43,000 migrant students in the state are not receiving migrant education services during the current year because (1) they have not been identified as eligible migrant students or (2) their local school districts, such as the Los Angeles Unified School District, have declined to participate in the migrant education program.

Our analysis indicates that this program is serving its intended purpose, and, accordingly, we recommend that the amount requested be approved as budgeted.

**b. Economic Impact Aid (Item 6100-121-001)*****We recommend approval.***

The State Economic Impact Aid (EIA) program provides funds to local school districts with high concentrations of children who are poor, educationally disadvantaged, or limited English-proficient for (1) the state compensatory education program (EIA-SCE) and (2) bilingual education programs for limited English-proficient students (EIA-LEP). These programs provide (1) supplemental educational services, particularly in basic skills, to children who have difficulty in reading, language development, or mathematics and (2) bilingual education services to children who are classified as limited English-proficient.

The budget proposes to appropriate \$198,902,000 from the General Fund for EIA local assistance in 1986-87. This amount provides for a 2 percent cost-of-living adjustment increase. Our analysis indicates that this program is serving its intended purpose, and accordingly, we recommend that the amount requested be approved as budgeted.

### Bilingual Education

Current state law requires that limited-English proficient (LEP) pupils be provided a basic bilingual education program consisting of (1) an English language development component and (2) a primary language component for instruction in basic skills until the LEP pupil makes a transition to English. Current law also authorizes a limited number of experimental bilingual education programs.

State funding for bilingual education programs is provided primarily under Economic Impact Aid. Additional funding for services to LEP pupils may be provided as part of other state-funded programs such as Demonstration Programs in Reading and Mathematics and Special Education, as well as under a number of federally-funded programs, including ECIA Chapter 1, Migrant Education, the Transition Program for Refugee Children, and the recently-established Emergency Immigrant Education Assistance Program.

Because of the multiplicity of programs and funding sources for bilingual education, we cannot determine how much California spends for bilingual education.

**Annual Census of LEP Pupils.** Current state law requires that all school districts conduct an annual census to determine the home language of each pupil enrolled in the district, and to assess the language skills of those pupils whose primary language is other than English. Based on this assessment, students are classified as limited English-proficient (LEP) or fluent English-proficient (FEP). In the most recent language census (conducted in the spring of 1985), school districts identified 524,082 LEP students who are eligible to receive bilingual education services, and an almost equal number—503,695—of FEP students who do not require specialized educational services in their primary language.

As shown in Table 28, the total number of LEP students in California increased by nearly 61 percent between 1980 and 1985. Of the total LEP population, 48 percent have Spanish as their primary language. The number of LEP students whose primary language is not Spanish, however, has more than doubled in the past five years. The LEP students now constitute approximately 12 percent of all public school enrollment in the state. However, because nearly half of all LEP students are in grades K-3, these students represent an even larger share of enrollment in the early grades. *Nearly one-fourth (22.1 percent) of the students who were in kindergarten in 1985 were classified as LEP.*

**Table 28**  
**Number of K-12**  
**Limited English Proficient Pupils**  
**1980 Through 1985**

Language	1980	1981	1982	1983	1984	1985	Increase, 1985 Over 1980	
							Number	Percent
Spanish.....	257,033	285,567	322,526	337,141	355,650	380,375	123,342	47.9%
Non-Spanish .....	68,715	91,227	108,923	120,401	132,185	143,707	74,992	109.1
Vietnamese .....	(14,018)	(22,826)	(27,733)	(29,033)	(29,535)	(29,990)	(15,972)	(113.9)
Cantonese .....	(10,174)	(14,196)	(16,096)	(15,870)	(18,139)	(19,118)	(8,944)	(87.9)
Korean .....	(6,599)	(7,508)	(7,980)	(8,703)	(8,993)	(9,249)	(2,650)	(40.1)
Pilipino .....	(6,658)	(6,752)	(8,569)	(9,624)	(10,941)	(12,145)	(5,487)	(82.4)
All Others .....	(31,266)	(39,945)	(48,545)	(57,171)	(64,577)	(73,205)	(41,939)	(134.1)
Totals .....	325,748	376,794	431,449	457,542	487,835	524,082	198,334	60.9%

**DEPARTMENT OF EDUCATION—Continued****Sunset Review Reports**

Under current law, the statutes and regulations governing Economic Impact Aid and bilingual education will cease to be operative on June 30, 1987. This sunset provision is intended to provide the Legislature with an opportunity to conduct a comprehensive review of these state-funded categorical education programs.

To assist the Legislature in its review, current law required the Department of Education (SDE) to submit a report to the Legislature by September 15, 1985, regarding all of the programs scheduled to sunset in 1987. The law further requires the Legislative Analyst to submit findings, comments, and recommendations regarding the programs within 90 days after receiving this report.

**Economic Impact Aid.** At the time this analysis was prepared, the SDE had not submitted the sunset report on the EIA program. The department, however, did provide us with a *draft* copy of its report and requested our comments on the draft.

The SDE has indicated that the final report will be submitted to the Legislature prior to budget hearings. In accordance with current law, we will review the report and submit our findings and recommendations within 90 days after receiving this report.

**Bilingual Education.** The department submitted the sunset report on bilingual education to the Legislature on December 30, 1985. The major findings in the report include the following:

- Although there is considerable debate about which types of programs are most effective with language minority pupils, there is a consensus among educators and researchers that some special instructional services are required to adequately educate LEP students.
- The number of LEP students is expected to increase at a rate of 5-7% per year for the next four to five years, primarily because of changes in demographic and immigration patterns.
- Bilingual learning opportunities appear to be most effective when the following factors are present: (1) programs are of sufficient duration to allow LEP students to master English conversational skills as well as academic language skills, (2) the amount of English and primary language used for instruction is based on an assessment of individual student language proficiency, (3) LEP students are offered a core curriculum similar to the academic program provided to students who are native speakers of English, (4) to the extent possible, English and the primary language are separated for instructional purposes, and (5) parents, teachers, and students have high expectations for positive outcomes.
- The effective implementation of bilingual programs is often hampered by a lack of qualified bilingual teachers and appropriate instructional materials.

We are in the process of reviewing this report and substantiating its findings. We plan to submit our findings and recommendations by March 30, 1986, as required by current law. (Elsewhere in this analysis, we recommend that the Legislature establish a procedure to ensure legislative review of sunset review reports.)

**c. Miller-Unruh Reading Program (Item 6100-126-001)**

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 \$21,000 per full-time reading specialists—an amount equal to 79 percent of the average salary paid to elementary school teachers statewide. School districts must pay for the remainder of the specialist's salary. Table 29 shows program participation and funding from 1980-81 to 1985-86.

**Table 29**  
**K-12 Education**  
**Miller-Unruh Reading Program**  
**Participation and Funding**  
**1980-81 to 1985-86**

	Number of Districts Participating	Number of Positions Funded	Total Appropriation	Funding Level Per Position
1980-81 .....	165	992	\$15,265,796	\$15,389
1981-82 .....	161	964	16,181,744	16,786
1982-83 .....	157	948	16,182,000	17,070
1983-84 .....	152	919	17,152,920	18,665
1984-85 .....	149	918	18,166,000	19,789
1985-86 .....	148	914	19,290,000	21,105
Change from 1980-81 to 1985-86				
Amount .....	-17	-78	\$4,024,204	\$5,716
Percent .....	-10.3%	-7.9%	26.4%	37.1%

The budget proposes \$20,405,000 from the General Fund for the program in 1986-87, an increase of 5.8 percent over the current-year level.

**Sunset Review.** Under current law, statutes and regulations governing the Miller-Unruh Reading program will cease to be operative on June 30, 1987. This sunset provision is intended to provide an opportunity for the Legislature to conduct a comprehensive review of this program.

The sunset review process requires, among other things, that the SDE submit a report to the Legislature by September 15, 1985 on the Miller-Unruh program. At the time this analysis was prepared, the report had not been submitted. The SDE has indicated, however, that the report will be submitted to the Legislature prior to budget hearings. In accordance with current law, we will review the report and submit our findings and recommendations within 90 days after receiving this report.

**Failure to Comply with Legislative Directive**

*We recommend that the Legislature (1) augment funding for the Miller-Unruh Reading Program by \$83,566 and (2) reduce support for the Office of the Superintendent of Public Instruction by an equivalent amount, because the Superintendent failed to comply with the legislative directive to use these funds to expand participation in the program. We further recommend that the Legislature adopt Budget Bill language requiring the Department of Education to (1) reallocate Miller-Unruh funds whenever the number of reading specialists is reduced in participating school districts and (2) select new participants from those school districts with the lowest California Assessment Program reading scores and revenue limits. (Augment Item 6100-126-001 by \$83,566 and reduce Item 6100-001-001 (d) by \$83,566.)*

**DEPARTMENT OF EDUCATION—Continued**

In last year's *Analysis*, we pointed out that the SDE was using funds freed up when districts drop out of the Miller-Unruh program to increase reading specialist stipends, rather than to expand the number of schools participating in the program. These increases have exceeded the amounts which the Legislature has approved for cost-of-living adjustments. As a result, the amount allocated for each reading specialist position in those school districts remaining in the program has increased by over 37% since 1980-81. We further noted that this practice was contrary to priorities established by the Legislature in funding the program. Specifically, current law provides that Miller-Unruh program funds are to be allocated:

- First, to allow participating districts to maintain their programs at the prior-year level, and
- Second, to fund applications for new programs in schools where the percentage of students with reading difficulties is greatest, and the financial ability of the district to provide special instructional assistance is least.

The Legislature shared our concern. Accordingly, it included language in the *Supplemental Report of the 1985 Budget Act* which requires the department to accept applications from any school district wishing to participate in the Miller-Unruh program. The language further requires that whenever the number of reading specialist positions funded by the program is reduced in any school district, the funds freed up as a result of this reduction shall be reallocated to support an equivalent number of positions in another district or districts. Districts with the lowest California Assessment Program (CAP) reading scores and district base revenue limits shall receive first priority for any available funds.

The department has not complied with the Legislature's directive. It has *not* developed any mechanism through which districts wishing to participate in the program can make formal application to the Department. Moreover, when a district with four reading specialist positions chose not to participate in the program during the current year, SDE did *not* reallocate the funding made available by the reduction in the four positions to new participants. Instead, it used the funds—approximately \$79,000—for the very purpose that prompted the Legislature's action last year: to once again increase the state's portion of the stipends paid to reading specialists in existing districts.

In short, instead of allowing more children to benefit from the program, the department opted to provide fiscal relief to those districts already fortunate enough to participate in the program.

In order to fund the legislative priorities which were clearly established in the supplemental report, we recommend an augmentation of \$83,566 (the current-year amount of \$79,000 plus a 5.78 percent COLA) in 1986-87 to the program to provide funding for additional districts wishing to participate in the program. Because the Superintendent of Public Instruction, who is responsible for implementing this legislative directive, ignored the Legislature's directive and caused the reduction in the amount of funding available to new districts, we recommend that the funding for this augmentation be made available by reducing the administrative budget of the Office of the Superintendent. (Augment Item 6100-126-001 by \$83,566. Reduce Item 6100-001-001 (d) by \$83,566.)

To ensure that legislative priorities are carried out in the budget year, we also recommend adoption of the following Budget Bill language in

Item 6100-126-001, requiring the Department of Education to (1) reallocate Miller-Unruh funds whenever the number of reading specialists is reduced in participating districts, and (2) select new participants from those school districts with the lowest California Assessment Program reading scores and revenue limits.

**"Provisions:**

The Department of Education shall establish a procedure to accept applications from any school district for participation in the Miller-Unruh Reading program. This procedure shall provide first priority for any available funding to districts with the lowest California Assessment Program reading scores and district base revenue limits. Whenever the number of reading specialist positions funded by the program is reduced in any school district, funds shall be reallocated to support an equivalent number of positions in another district or districts."

**d. Refugee and Immigrant Programs (Item 6100-176-890)**

*We withhold recommendation on \$19,912,000 in federal funds requested for refugee and immigrant programs, pending receipt of information relating to the actual grant amount.*

The Department of Education administers two federally-funded programs which provide financial assistance to local school districts for educational services to refugee and immigrant children—(1) the Transition Program for Refugee Children (TPRC) and (2) the Emergency Immigrant Education Assistance Program (EIEAP).

Table 30 displays the aggregate funding for these two programs in the prior, current, and budget years. As the table indicates, the budget expects that federal funding for these programs will decrease by 1.5 percent (\$306,000).

**Table 30**  
**K-12 Education**  
**Refugee and Immigrant Programs**  
**Federal Funds**  
**1984-85 through 1986-87**  
**(dollars in thousands)**

	<i>Actual</i> 1984-85	<i>Est.</i> 1985-86	<i>Prop.</i> 1986-87	<i>Change from</i> 1985-86	
				<i>Amount</i>	<i>Percent</i>
State Administration .....	\$173	\$381	\$331	-\$50	-13.1%
Local Assistance .....	17,616	19,837	19,581	-256	-1.3
Totals.....	\$17,789	\$20,218	\$19,912	-\$306	-1.5%
Personnel-years.....	1.1	3.5	3.5	—	—

**Transition Program for Refugee Children.** The TPRC provides federal funds to school districts which have experienced heavy enrollments of refugee students—primarily Indochinese, Cuban, and Haitian children.

The districts use their TPRC funds to provide a variety of educational 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

**DEPARTMENT OF EDUCATION—Continued**

- Testing, assessment, and placement of incoming pupils.

The TPRC grants are allocated among school districts, based on the number of eligible refugee students enrolled in each. Eligible students include refugee children in grades K-6 who have been in this country no longer than two years, and those in grades 7-12 who have been in this country for no more than three years.

California received a \$4.5 million grant for the TPRC program during the current fiscal year, of which \$45,248 was expended for state operations.

As Table 31 shows, the number of students for which districts receive TPRC funds has been declining sharply in recent years. This decline is primarily attributable to the fact that most refugee children have now been in this country for more than two or three years. Although this trend is likely to continue, estimates of how many school districts and students are likely to participate in the program during 1986-87 will not be available until the spring of 1986.

**Table 31**  
**Transition Program for Refugee Children (TPRC)**  
**Participation and Funding**  
**1984-85 to 1986-87**

<i>School Year</i>	<i>TPRC Refugee Students</i>	<i>School Districts</i>	<i>Total Grant</i>	<i>State Operations</i>	<i>Reimbursement Per Pupil</i>
1981-82 .....	55,506	231	\$6,975,701	\$69,757	\$124
1982-83 .....	46,019	261	7,662,445	76,624	165
1983-84 .....	35,923	279	5,064,600	50,646	140
1984-85 .....	29,601	257	5,096,420	50,964	172
1985-86 .....	23,548	279	4,524,890	45,248	192
1986-87 .....	N/A <sup>a</sup>	N/A	5,565,000 <sup>b</sup>	97,000 <sup>b</sup>	N/A

<sup>a</sup> N/A—Not available

<sup>b</sup> Governor's Budget estimates

The Governor's Budget assumes that TRPC funding will total \$5.6 million in 1986-87—an increase of 23 percent over the amount available in the current year. Of this amount, the budget proposes to allocate \$97,000 for state operations expenditures associated with this program.

Our review indicates that both of these estimates are too high. First, as shown in Table 31, the amount of the state's federal grant has been declining since 1982-83. We know of no reason why this trend should reverse in 1986-87. Second, the federal government allows no more than 1 percent of the local assistance budget to be used for state operations. Thus, even if the state's federal grant did increase to \$5.6 million, state operations expenditures would be limited to \$55,650.

**Emergency Immigrant Education Assistance Program (EIEAP).** The EIEAP provides financial assistance to school districts in which at least 500 students (or, alternatively, 3 percent of the district's enrollment) are immigrant children who have been attending schools in the United States for less than three years. These federal funds may be used by local school districts to meet the costs of (1) supplementary educational services provided to immigrant children (including bilingual or English language instruction), (2) additional basic instructional services which are directly attributable to the presence of immigrant children in the school district (including capital outlay or transportation costs), and (3) in-ser-



vice training for staff who will be teaching immigrant children.

Table 32 displays funding and programmatic information for the EIEAP in the prior, current, and budget years. Estimates of how many school districts and students are likely to participate in the EIEAP during 1986-87 will not be available until the spring of 1986. As the table shows, California received a \$14.2 million grant for this program during the current fiscal year, of which \$213,436 was expended for state operations.

**Table 32**  
**Emergency Immigration Education Assistance Program**  
**Participation and Funding**  
**1984-85 to 1986-87**

<i>School Year</i>	<i>Immigrant Students</i>	<i>School Districts</i>	<i>Total Grant</i>	<i>State Operations</i>
1984-85.....	143,340	136	\$12,939,163	\$194,087
1985-86.....	193,050	191	14,229,071	213,436
1986-87.....	N/A <sup>a</sup>	N/A	14,016,000 <sup>b</sup>	234,000 <sup>b</sup>

<sup>a</sup> N/A - Not available

<sup>b</sup> Governor's Budget Estimates

The Governor's Budget assumes that EIEAP funding will total \$14 million in 1986-87—a decrease of 1.5 percent below the amount available in the current year. Of this amount, the budget proposes to allocate \$234,000 for state operations expenditures associated with this program.

Our review indicates that these amounts are also inaccurate. First, we note that the state's EIEAP grant award from the federal government *increased* by 10 percent in 1985-86 and, according to SDE, a similar increase is expected in 1986-87. Second, the amount proposed for state operations—\$234,000—is equal to 1.7 percent of the anticipated grant amount, while federal law allows no more than 1.5 percent of the grant amount to be used for this purpose.

In sum, our review indicates that the amounts shown in the budget for both of these programs are not reliable.

When we have more accurate estimates of how many students will be served by these two programs in the budget year and what the size of the federal grant will be, we will advise the Legislature regarding funding requirements for these programs. Until then, we withhold recommendation on the funding requested for these programs.

#### **e. 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 the AB 1544/77 Native American Indian Education program. The office is staffed by two consultants and one clerical position in the current year.

Table 33 shows the level of state administration and local assistance expenditures proposed for the two state Indian Education projects in 1986-87. As the table indicates, the budget proposes General Fund expenditures totaling \$1,456,000 for the two projects in 1986-87. This is an increase of 2.4 percent (COLA) over current-year expenditures.

## DEPARTMENT OF EDUCATION—Continued

Table 33  
K-12 Education  
Indian Education General Fund Expenditures  
1984-85 through 1986-87  
(dollars in thousands)

	Actual 1984-85	Est. 1985-86	Prop. 1986-87	Change from 1985-86	
				Amount	Percent
State Operations.....	\$195	\$209	\$219	\$10	4.8%
Local Assistance					
AB 1544 Native American Indian Educa- tion Program.....	347	361	368	7	1.9%
SB 2264 American Indian Education Cen- ters.....	819	852	869	17	2.0
Subtotals, Local assistance .....	\$1,166	\$1,213	\$1,237	\$24	2.0%
Totals.....	\$1,361	\$1,422	\$1,456	\$34	2.4%
Personnel-years .....	2.9	3	3	—	—

**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 Indian tribes or private nonprofit organizations which report to a community-elected board of directors. Each center typically offers a variety of services, which are funded from 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 1985-86, rural school districts received funds under the program for 24 schools, serving 1,131 pupils. On average, these schools received \$307 for each Indian student enrolled.

Our analysis indicates that these two programs are serving their intended purpose and, therefore, we recommend that the amount requested for them be approved as budgeted.

We note, however, that under current law the Native American Indian Education program will cease to be operative on June 30, 1987. This sunset provision is intended to provide the Legislature with an opportunity to conduct a comprehensive review of the program. The sunset review process required, among other things, that by September 15, 1985, the SDE submit to the Legislature a report on the Native American Indian program.

At the time this analysis was prepared, the report had not been submitted. The SDE has indicated, however, that the report will be submitted prior to budget hearings. In accordance with current law, we will review the report and submit our findings and recommendations within 90 days after receiving this report.

**6. School Desegregation (Items 6100-114-001 and 6100-115-001)**

State reimbursement of school desegregation costs is not required by the California Constitution. Under the provisions of current law, however, the state reimburses school districts for the cost of both court-ordered and voluntary school desegregation programs. These reimbursements are funded from the General Fund based on claims filed by school districts operating these programs.

As shown in Table 34, the Governor's Budget proposes to appropriate \$352 million for all school desegregation reimbursements in the budget year. This is an increase of \$65.2 million, or 23 percent, over current-year funding.

**Table 34**  
**K-12 Education**  
**General Fund Reimbursement of School Desegregation Programs**  
**1984-85 through 1986-87**  
**(dollars in thousands)**

	<i>Actual</i> 1984-85	<i>Est.</i> 1985-86	<i>Prop.</i> 1986-87	<i>Change from 1985-86</i>	
				<i>Amount</i>	<i>Percent</i>
<b>A. Court-Ordered</b>					
Desegregation:					
Budget Act .....	\$154,416	\$184,416	\$269,048	\$84,632	45.9%
Ch 418/84 .....	30,000	—	—	—	—
Ch 4/85 .....	25,595 <sup>a</sup>	—	—	—	—
Ch 180/85 .....	—	22,006	—	-22,006	-100.0
Subtotals, Court-Ordered .....	\$210,011	\$206,422	\$269,048	\$62,626	30.3%
<b>B. Voluntary Desegregation:</b>					
Budget Act .....	—	\$7,000	\$82,969	\$75,969	NMF <sup>p</sup>
Ch 418/84 .....	\$7,000	—	—	—	—
Ch 4/85 .....	5,820 <sup>b</sup>	—	—	—	—
Ch 180/85 .....	—	73,351	—	-73,351	-100.0%
Subtotals, Voluntary .....	\$12,820	\$80,351	\$82,969	\$2,618	3.3%
<b>Totals .....</b>	<b>\$222,831</b>	<b>\$286,773</b>	<b>\$352,017</b>	<b>\$65,244</b>	<b>22.8%</b>

<sup>a</sup> Reflects proposed reversion of \$320,000 to General Fund.

<sup>b</sup> Reflects proposed reversion of \$65,000 to General Fund.

NMF means not a meaningful figure

**Recent Legislation.** During the current year, the Legislature enacted AB 38 (Ch 180/85), which significantly changed the method by which state reimbursement is provided for school desegregation. Specifically, this measure:

- Removes 1980-81 as the base year for determining reimbursement eligibility (thereby making additional districts eligible);
- Establishes 1984-85 as the base year for determining reimbursements (except for districts that begin desegregation programs after 1984-85, in which case the first year in which the program is operative is the base year);
- Authorizes reimbursement equal to 80 percent of base-year costs, as adjusted in subsequent years for enrollment growth and cost of living allowances for districts operating *voluntary* programs or programs pursuant to a *court order issued after January 1, 1986*;

**DEPARTMENT OF EDUCATION—Continued**

- Authorizes reimbursement for 100 percent of base-year cost, as adjusted in subsequent years for enrollment growth and cost of living allowances, plus, in subsequent years, 80 percent of the difference between adjusted base year costs and total costs claimed, for districts operating desegregation programs pursuant to *court order issued prior to January 1, 1986*;
- Provides that all claims shall be subject to audit by the Controller to determine (1) whether the costs are for programs as described in the desegregation plan, (2) whether the costs exceed the district's expenditure levels for regular educational programs, and (3) whether the costs are excessive or unreasonable; and
- Appropriates \$95.4 million from the General Fund for payment of all remaining desegregation claims for costs incurred in 1983-84 and 1984-85 and expresses the intent of the Legislature that the 1986 Budget Act include funding to fully fund 1985-86 and 1986-87 claims.

**Budget Proposal Needs Adjustment**

*We recommend that the Legislature transfer \$8.6 million from voluntary desegregation reimbursements to court-ordered desegregation reimbursements, to accurately reflect anticipated funding needs. (Reduce Item 6100-115-001 by \$8,063,000 and Item 6100-226-001(a) (12) by \$553,000 and increase Item 6100-114-001 by \$8,200,000 and Item 6100-226-001(a) (11) by \$416,000.)*

As shown in Table 34, the Governor requests \$269 million for payment of court-ordered desegregation claims and \$83 million for payment of voluntary desegregation claims in 1986-87. These funds, together with funds appropriated for this purpose in the current year, will be used to pay claims filed for both the current and budget years, as called for by AB 38.

**Table 35**  
**K-12 Education**  
**Funding for School Desegregation Claims**  
**1983-84 through 1986-87**  
**(dollars in thousands)**

	<i>Actual</i> <i>1983-84</i>	<i>Actual</i> <i>1984-85</i>	<i>Est.</i> <i>1985-86</i>	<i>Est.</i> <i>1986-87</i>
<b>A. Court-Ordered Desegregation</b>				
Claims .....	\$156,034	\$190,575	\$221,161	\$240,358
Budget Act Appropriation .....	138,816	154,416	184,416	269,048
Deficit (Surplus) .....	\$17,218	\$36,159	\$36,745	—\$28,690
Other Appropriations .....	—	55,595	22,006	—
Deficit (Surplus) .....	\$17,218	—\$19,436	\$14,739	\$28,690
Cumulative Remaining Deficit (Surplus) .....	\$39,626 <sup>a</sup>	\$20,190	\$34,929	\$6,239
<b>B. Voluntary Desegregation</b>				
Claims .....	\$43,209	\$42,234	\$39,466	\$42,615
Budget Act Appropriation .....	—	—	7,000	82,969
Deficit (Surplus) .....	\$43,209	\$42,234	\$32,466	—\$40,354
Other Appropriations .....	—	12,820	73,351	—
Deficit (Surplus) .....	\$43,209	\$29,414	—\$40,885	—\$40,354
Cumulative Remaining Deficit (Surplus) .....	\$43,209	\$72,623	\$31,738	—\$8,616

<sup>a</sup> Includes carryover from prior year.

**Claims for Funding.** Table 35 shows the volume of claims submitted for desegregation reimbursements from 1983-84 through 1986-87 and the funding provided to satisfy these claims. The estimates of current-year and budget-year claims that will be eligible for payment in 1986-87 are based upon the claims filed with the State Controller by the November 30 deadline.

Our analysis indicates that the Governor's Budget overestimates the amount of voluntary claims and underestimates the amount of court-ordered claims that will have to be funded in 1986-87. Specifically, we find that the budget proposal would result in a surplus of \$8.6 million for voluntary programs and a deficit of \$6.2 million for court-ordered programs.

**Additional Court-Ordered Desegregation Claim.** On December 31, 1985, San Jose Unified School District (SJUSD) was ordered by the court to desegregate its schools. As a result, the district became eligible to receive reimbursement for the *full* cost of its desegregation program in the first year and, in subsequent years, to receive reimbursement for the full first-year costs as adjusted for enrollment growth and cost of living allowances plus 80 percent of the difference between its actual approved claim and its adjusted first-year costs.

At the time this analysis was prepared, SJUSD had not filed a claim for reimbursement. We understand, however, that the district intends to claim costs of approximately \$15 million for the period January 1, 1986-June 30, 1986. This implies a full-year cost of \$30 million.

We have excluded San Jose's claim from our estimates (shown in Table 35) of the amount required in the budget year, for the following reasons:

- SJUSD has not actually filed a claim. Therefore, the final amount that will be claimed by the district and approved by the Controller are unknown at this time.
- Since the first year of the desegregation program (1985-86) will cover only a half year's operations, special legislation will be required to establish an annual cost basis for computing allowances in subsequent years.
- Additional funds needed for payment of San Jose's claim can be appropriated in the same bill that would establish the district's annual first-year costs. The amount required would be more accurately known at that time.

**Recommendation.** In order to more accurately reflect expected funding needs for court-ordered and voluntary desegregation, and in anticipation of funding needs required for payment of San Jose's claim, we recommend that \$8.6 million be transferred from voluntary to court-ordered desegregation reimbursements. This action would provide full funding for all anticipated claims for reimbursement and leave a balance of \$2.4 million in court-ordered reimbursements that can later be applied to payment of San Jose's claim.

## 7. Other Specialized Education Programs

This section analyzes those specialized education programs which do not fit into any of the five categories discussed above. These programs include Pupil Dropout Prevention and Recovery; Gifted and Talented Education; specialized secondary schools; foster youth services; the Youth

**DEPARTMENT OF EDUCATION—Continued**

Suicide Prevention program; the Drug and Alcohol Abuse Prevention Program; the School/Law Enforcement Partnership; Commissions on Professional Competence; driver training; and the ECIA Chapter 2 federal block grant.

**a. Pupil Dropout Prevention and Recovery Programs (Item 6100-120-001)**

Senate Bill 65 (Ch 1421/85) establishes three types of programs in order to help local education agencies reduce the number of students dropping out of school and deliver services to students who have already dropped out. These programs are (1) the School-Based Pupil Motivation and Maintenance Program, (2) alternative education and work centers, and (3) educational clinics.

- ***School-Based Pupil Motivation and Maintenance Program.*** Under this program, participating schools may receive funds to develop and implement plans for school improvement aimed at long-range dropout prevention. The plans must be developed by a local school site council, and must contain provisions for: (1) staff development, (2) early identification of and appropriate intervention strategies for students with potential learning problems, (3) coordination of various state-funded programs, and (4) the use of "student study teams" and "outreach consultants." Participating schools receive one-time planning grants of between \$4,000 and \$6,000, and ongoing grants of \$40,000 annually for one outreach consultant position. Senate Bill 65 provides no other funds for the motivation and maintenance programs, but it allows school districts to use revenues from other state programs (such as special education, Economic Impact Aid, ROC/Ps, and continuation education) to fund dropout prevention efforts.
- ***Alternative Education and Work Centers.*** Under the provisions of SB 65, school districts may establish alternative education and work centers to provide vocational training and instruction in basic academic skills to students who have previously dropped out of school. Districts establishing these work centers are provided with funds for planning and for one outreach consultant position.
- ***Educational Clinics.*** Senate Bill 65 authorizes school districts, as well as private entities, to establish educational clinics in areas without alternative education and work centers. The purpose of these clinics is to provide dropouts with intensive, individualized instruction in order to prepare them for reentry into another educational program or the military. Educational clinics receive funding based on the number of service hours provided per student. The State Department of Education expects to fund nine educational clinics, on a pilot basis, beginning in February 1986.

In addition to these three programs, SB 65 authorized the Superintendent of Public Instruction to (1) provide grants to LEAs wishing to replicate existing model programs and (2) establish an information clearinghouse on effective dropout prevention practices.

Senate Bill 65 appropriated a total of \$3,125,000 from the General Fund for dropout prevention and recovery programs in the current year. As shown in Table 36, this amount consists of (1) \$1,400,000 for planning grants, (2) \$950,000 to provide one-half year of support to nine educational clinics, (3) \$350,000 for model program replication, and (4) \$425,000 for state administrative costs.

**Budget Proposal.** The Governor's Budget proposes a total General Fund appropriation of \$14 million in 1986-87 for dropout prevention and recovery programs. This amount consists of (1) \$10 million for outreach consultants, (2) \$1.4 million for planning grants, (3) \$1.9 million to continue funding for nine educational clinics, (4) \$350,000 for model program replication, and (5) \$400,000 for state administrative costs.

**Table 36**  
**K-12 Education**  
**Pupil Dropout Prevention and Recovery Programs**  
**1984-85 through 1986-87**  
**(dollars in thousands)**

Program Expenditures <sup>a</sup>	Actual 1984-85	Est. 1985-86	Prop. 1986-87	Change From 1985-86	
				Amount	Percent
Local Assistance					
Outreach Consultants .....	—	—	\$10,000	\$10,000	N/A
Planning Grants .....	—	\$1,400	\$1,400	—	—
Educational Clinics .....	—	950	1,900	950	100.0%
Model Programs .....	—	350	350	—	—
Subtotals .....	—	\$2,700	\$13,650	\$10,950	405.6%
State Operations .....	—	\$425	\$400	—\$25	—5.9%
Totals .....	—	\$3,125	\$14,050	\$10,925	349.6%

<sup>a</sup> General Fund

Our analysis indicates that the proposed funding for the nine clinics, replication, and administration is justified. We believe, however, that the Legislature needs more information about planning grants and outreach consultants before it can act on this part of the request.

#### **Funding for Outreach Consultants and Planning Grants**

***We withhold recommendation on \$11,400,000 requested from the General Fund for outreach consultants and planning grants, pending receipt of additional information on projected participation rates.***

The Governor's Budget proposes a General Fund appropriation of \$10 million to provide LEAs with funds to hire outreach consultants. Under the proposal, each LEA establishing either a school-based pupil motivation program or an alternative education and work center would receive \$40,000 for one outreach consultant position. The exact role of the outreach consultant would be determined by each participating LEA; SB 65 requires, however, that outreach consultants be (1) knowledgeable about local community and educational resources and (2) skilled in counseling and administration.

The budget estimates that a total of 250 LEAs will be eligible for outreach consultant funds in the budget year. (To be eligible, a LEA must apply for a planning grant in the current year.) It also assumes that in 1986-87, an *additional* 250 LEAs will apply for planning grants totaling \$1.4 million. Thus, the total amount requested for outreach consultants and planning grants is \$11.4 million.

At the time this analysis was prepared, the Department of Education was still in the process of soliciting applications for these programs from local education agencies. As a consequence, it is not clear that 250 LEAs will actually participate in these programs during the current year, or that

**DEPARTMENT OF EDUCATION—Continued**

an additional 250 LEAs would choose to participate during the budget year. Without information on the number of LEAs that wish to establish dropout prevention and recovery programs, the Legislature has no way of knowing whether participation in these programs will be sufficient to warrant the funding proposed in the budget.

The department indicates that detailed information on participation rates will be available in February. We therefore withhold recommendation on the \$11.4 million proposed for dropout planning grants and outreach consultants, pending review of data on actual participation rates.

**b. Gifted and Talented Education (Item 6100-124-001)***We recommend approval.*

The Gifted and Talented Education (GATE) program was established by Chapter 774, Statutes of 1979, to supersede the Mentally Gifted Minor program. Each district which operates a GATE program must establish criteria and a method for identifying students that are gifted or talented in one or more of the following categories: (1) intellectual ability, (2) creative ability, (3) specific academic ability, (4) leadership, (5) high achievement, (6) visual and performing arts, or (7) any other criteria which meet standards established by the State Board of Education. Typically, the local selection process is complex, and may utilize standardized test scores, teacher or parent referrals, course grades, pupil products, and a review by a school psychologist or other professional.

The design of each district's GATE program is determined locally, in accordance with state guidelines. All GATE programs are required to provide unique educational opportunities for high-achieving and under-achieving gifted and talented pupils, including those in the upper range of intellectual ability, while ensuring the participation of children from disadvantaged and varying cultural backgrounds. The 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.

For the 1984-85 school year, GATE provided funds to 431 school districts for educational programs which served approximately 211,000 students identified as gifted or talented. Districts which operated a mentally gifted minor program during 1978-79 are eligible to receive GATE funds. In addition, a limited number of districts have been admitted to the program to replace districts which have withdrawn from GATE since 1979.

Table 37 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 \$21,236,000 for GATE local assistance in 1986-87. This amount provides a 6 percent increase to fund the program's statutory COLA.

Our analysis indicates that this program is serving its intended purpose, and accordingly, we recommend that the amount requested be approved as budgeted.



**Table 37**  
**K-12 Education**  
**Gifted and Talented Education Program Funding**  
**1984-85 through 1986-87**  
**(dollars in thousands)**

	<i>Actual</i> 1984-85	<i>Est.</i> 1985-86	<i>Prop.</i> 1986-87	<i>Change</i> <i>From 1985-86</i>	
				<i>Amount</i>	<i>Percent</i>
State Operations .....	\$213	\$294	\$329	\$35	11.9%
Local Assistance.....	18,900	20,034	21,236	1,202	6.0
Totals .....	\$19,113	\$20,328	\$21,565	\$1,237	6.1%

**c. Specialized Secondary Schools (Item 6100-119-001(b))**

***We recommend approval.***

Senate Bill 813 authorized school districts, beginning in 1984-85, to apply to the Superintendent of Public Instruction for funds to establish high schools with specialized curricula in the fields of mathematics, science, visual and performing arts, and computer technology. The objective of these specialized secondary schools is to provide talented students with specialized learning experiences and training in these areas and to promote the development of specialized curricula for other school districts. Funding may be used for "start-up" costs associated with the establishment of a new specialized secondary school or a new program in an existing school. Ten schools, serving 83 school districts statewide, were established under the program in 1984-85.

The Legislature appropriated \$2,080,000 from the General Fund for specialized secondary schools in 1985-86. Of this amount, \$1,540,000 was provided to existing programs for the purpose of funding new programs. (These funds will be used primarily for curriculum development, staff training, and equipment.) The department also awarded \$426,000 to two districts for the purpose of establishing new programs. At the time this analysis was prepared, the department had not yet allocated the remaining \$114,000 in funds.

The budget requests \$2,122,000 for specialized secondary schools in 1986-87—an increase of 2 percent (COLA) over the current-year appropriation. As in the current year, this amount would be used to provide funding for the establishment of new specialized secondary schools and to fund additional start-up costs related to the expansion of programs in existing schools.

Our analysis indicates that the program is being implemented in a manner consistent with the intent of SB 813. Accordingly, we recommend that the amount requested be approved as budgeted.

**d. Foster Youth Services (Item 6100-119-001(a))**

Under existing law, four school districts (Elk Grove, Mount Diablo, Sacramento City, and San Juan Unified) receive state funding to provide special services for foster children. These services include educational planning, assessment, and placement services; tutoring; and counseling and on-the-job training. The four foster youth programs also provide student advocacy and liaison with families, schools, and other agencies.

The Legislature included language in the Supplemental Report to the 1985 Budget Act requiring the Department of Education to collect information regarding the effectiveness of these programs, including data on

**DEPARTMENT OF EDUCATION—Continued**

(1) student achievement, (2) dropout rates, and (3) number of children placed in juvenile facilities. The department indicates that it will submit this data by February 15, 1986, along with an independent evaluation of the programs. We will review these materials and make comments to the Legislature, as appropriate.

**General Fund Support of Foster Youth Services Unnecessary**

*We recommend that the Legislature delete \$829,000 requested from the General Fund for Foster Youth Services, because reimbursements from the Foster Children and Parent Training Fund will be available to fund these programs. (Reduce Item 6100-119-001 (a) by \$813,000 and Item 6100-226-001 by \$16,000 and increase reimbursements by a like amount.)*

Under current law (Ch 485/84), parents of children who are placed in a juvenile facility or foster home are required to pay for a portion of their children's residential care if they are financially able to do so. These collections are used to offset the state, county, and federal costs of the Foster Care program.

Current law provides that if the amount of fees collected exceeds \$3.75 million in any fiscal year, the excess is to be deposited in the Foster Children and Parent Training Fund. Current law specifies that the first \$1 million deposited in this fund shall be used for foster parent training programs operated by community colleges. Any remaining funds may be used for the four foster youth programs operated by school districts.

**General Fund Support is Not Needed.** The Governor's Budget requests \$829,000 from the General Fund for foster youth services in 1986-87. This amount is 2.0 percent more than the level of support provided for these programs in the current year.

The Department of Social Services, which is responsible for administering collections under Chapter 485, estimates that collections in the budget year will total \$5,607,000. This would provide the full \$1 million for community college foster parent training programs, and up to \$857,000 for K-12 foster youth programs. The budget for K-12 education, however, does not reflect these revenues from the Department of Social Services.

Because sufficient funding for the four K-12 foster youth programs will be available from the Foster Children and Parent Training Fund in 1986-87, the proposed General Fund appropriation will not be needed in the budget year. For this reason, we recommend that the Legislature (1) reduce the amounts requested in Item 6100-119-001 and Item 6100-226-001 by \$813,000 and \$16,000, respectively, and (2) adopt the following Budget Bill display in Item 6100-119-001 to reflect the receipt of reimbursements from the Foster Children and Parent Training Fund:

"Program 20.40—Supplementary Program Services .....		2,080,000
Schedule:		
(a) 20.40.060—Instructional support—		
Foster Youth Services .....		829,000
(b) 20.40.090—Specialized Secondary Programs .....		2,080,000
(c) Reimbursements .....		— 829,000"

**e. Youth Suicide Prevention (Item 6100-222-001)**

*We recommend that the Legislature reduce the General Fund appropriation for youth suicide prevention programs by \$185,000 because expansion of the program is premature. (Reduce Item 6100-222-001 by \$175,000 and Item 6100-001-001 by \$10,000.)*

Chapter 750, Statutes of 1983 (SB 947), authorized two pilot programs—one in Los Angeles County and the other in San Mateo County—to develop model educational strategies for the prevention of youth suicide. These strategies include the design and testing of model curriculum materials for teaching pupils (1) how to recognize suicidal tendencies in others, and (2) where to find community suicide prevention resources. The two pilot projects each received \$150,000 (a total of \$300,000) annually from the state General Fund in 1984-85 and 1985-86. In addition, \$15,000 has been provided annually to cover state administrative costs.

Under the terms of SB 947, planning and implementation of the two pilot programs will be completed by June 30, 1986, and a final evaluation of the programs is to be submitted to the Legislature by January 1, 1987.

Senate Bill 947 also authorized the Superintendent of Public Instruction to design a statewide youth suicide prevention program, but no funds have been appropriated for this purpose.

**Budget Proposal.** As shown in Table 38, the budget requests \$333,000 from the General Fund for youth suicide prevention programs in 1986-87. This is an increase of 1.8 percent (COLA) over the current-year level.

**Table 38**  
**K-12 Education**  
**Youth Suicide Prevention<sup>a</sup>**  
**1984-85 through 1986-87**  
**(dollars in thousands)**

	<i>Actual</i> 1984-85	<i>Est.</i> 1985-86	<i>Prop.</i> 1986-87	<i>Change</i> <i>From 1985-86</i>	
				<i>Amount</i>	<i>Percent</i>
State operations .....	\$15	\$15	\$15	—	—
Local assistance .....	300	312	318	\$6	1.9%
Totals .....	\$315	\$327	\$333	\$6	1.8%

<sup>a</sup> General Fund

Of the \$333,000 proposed for youth suicide prevention programs in 1986-87, the State Department of Education indicates that (1) \$44,000 would be needed to fund existing programs, (2) \$52,000 would be allocated for program evaluation, and (3) \$52,000 would be used to revise the curriculum materials. The remaining \$185,000 would be used to replicate the two demonstration programs in 30 other school districts.

**Evidence of Program Effectiveness is Lacking.** Our analysis indicates that funding additional youth suicide prevention programs at this time would be premature.

To date, neither the State Department of Education nor the two county offices of education operating demonstration programs have submitted evidence that these programs are effective. In fact, an interim report prepared by the San Mateo County Office of Education identified numerous problems with the county's demonstration program. Specifically, the report found that (1) the curriculum materials were both unprofessional and developed at an unnecessarily high cost, and (2) the effectiveness of the curriculum materials could not be evaluated because of faulty assessment instruments.

Absent any evidence that this program is effective, expanding it would seem to be premature. Once the final evaluation of the pilot project is completed, the Legislature will then be in a position to determine whether expansion is warranted. On this basis, we recommend that the

**DEPARTMENT OF EDUCATION—Continued**

Legislature delete the \$185,000 proposed for program expansion, for an equivalent General Fund savings.

**f. Drug and Alcohol Abuse Prevention Program (Items 6100-001-464, 6100-183-001, and 6100-183-464)***We recommend approval.*

Assembly Bill 2126 (Ch 1306/85) requires the Superintendent of Public Instruction, in cooperation with the Department of Justice, the Department of Alcohol and Drug Programs, and the Office of Criminal Justice Planning, to contract with a nonprofit organization for the purpose of providing a year-round pilot program intended to curtail drug and alcohol abuse among children. The statute provides a three-year authorization for the pilot program, beginning July 1, 1985, and requires the project to employ a "positive role model" concept. Under this concept, well-known national and local celebrity athletes who have training in the field of substance abuse prevention will be used as role models in school and community activities.

The budget requests \$450,000—\$23,000 for state administration, and \$427,000 for the contracting organizations—to fund the drug and alcohol abuse prevention program in 1986–87. This amount would consist of \$187,000 from the General Fund and \$263,000 from the First Offender Program Evaluation Fund. The amount requested would be sufficient to continue the program at the current-year level.

Our review indicates that the proposed appropriation is consistent with legislative intent regarding funding for this program. Accordingly, we recommend that the amount requested be approved as budgeted.

**g. School/Law Enforcement Partnership Program (Item 6100-225-001)***We recommend approval.*

In 1983, the Attorney General and the Superintendent of Public Instruction formed the School/Law Enforcement Partnership Program to develop joint efforts between educators and law enforcement agencies which address the problems of school crime, vandalism, truancy, and drug abuse. In 1985–86, the program received its initial appropriation—\$325,000 from the General Fund. These funds were appropriated by SB 1394 (Ch 1457/85).

Chapter 1457 directs the Superintendent of Public Instruction and the Attorney General to train, over a two-year period, up to 100 professionals from education and law enforcement to serve as consultants to local school districts on various subjects related to school safety. It also authorizes funding in both 1985–86 and 1986–87 for the creation of thirty model local programs to demonstrate successful safe school practices.

The budget requests \$325,000 to continue the current-year level of support for the School/Law Enforcement Partnership Program. Of this amount, (1) \$150,000 would provide second-year funding for model programs, and (2) \$175,000 would be used primarily for consultant training.

The Department of Education has completed development of its training program, and plans on training fifty professionals during the current year. The department is also in the process of selecting school districts and local law enforcement agencies to implement model programs.

Because the program is being implemented in a manner consistent with the Legislature's intent as expressed in SB 1394, we recommend that the amount requested be approved as budgeted.

**h. Commissions on Professional Competence (Item 6100-209-001)***We recommend approval.*

Under current law, a school district employee who has been notified that the governing board intends to dismiss or suspend him or her may request a hearing before a local three-member Commission on Professional Competence. The commission consists of one member chosen by the employee, one member chosen by the governing board, and one member who is a hearing officer from the Office of Administrative Hearings.

Education Code Section 44944 provides, among other things, that if the commission decides that the employee should be dismissed or suspended, the state must pay for the reasonable expenses which the members chosen by the employee and governing board incurred. The local governing board pays these expenses if the employee is not dismissed.

The budget requests \$18,000 from the General Fund to reimburse school districts for the costs of commissions on professional competence during the budget year. Our review indicates that provision of such funding is consistent with the intent of the Legislature, and we recommend that the amount requested be approved as budgeted.

**i. 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 offering the laboratory driver training component are reimbursed for their actual costs in the prior fiscal year, up to a maximum of \$80 per nonhandicapped pupil and \$247 per handicapped pupil. In addition, school districts may receive reimbursement for the cost of replacing vehicles and simulators that are used exclusively in the laboratory phase of the program. The maximum allowable reimbursement for this purpose is 75 percent of the actual cost exceeding \$80 per pupil instructed.

Table 39 displays funding for driver training in the prior, current, and budget years.

**Table 39**  
**K-12 Education**  
**Allocations for Driver Training**  
**1984-85 through 1986-87**  
**(dollars in thousands)**

<i>Expenditures</i>	<i>Actual 1984-85</i>	<i>Est. 1985-86</i>	<i>Prop. 1986-87</i>	<i>Change From 1985-86</i>	
				<i>Amount</i>	<i>Percent</i>
<b>Driver Training</b>					
State operations .....	\$148	\$110	\$134	\$24	21.8%
Local assistance .....	19,500	19,500	19,500	—	—
Totals .....	\$19,648	\$19,610	\$19,634	\$24	0.1%
<b>Funding Sources</b>					
General Fund .....	\$106	\$110	\$134	\$24	21.8%
Driver Training Penalty Assessment Fund .....	19,500	19,500 <sup>a</sup>	19,500 <sup>a</sup>	—	—
Federal Trust Fund .....	1	—	—	—	—
Reimbursements .....	41	—	—	—	—

<sup>a</sup> These funds flow through the State School Fund.

**DEPARTMENT OF EDUCATION—Continued**

As shown in Table 39, the Governor's Budget proposes to continue the current-year funding level of \$19,500,000 for driver training local assistance. These funds would be appropriated from the Driver Training Penalty Assessment Fund (DTPAF), which receives its revenues from traffic fines.

**Driver Training Overbudgeted**

*We recommend that the Legislature reduce the amount budgeted for driver training local assistance by \$750,000, to more accurately reflect expected enrollment in the program. (Reduce Item 6100-171-178 by \$750,000.) (General Fund revenue increase: \$750,000.)*

Enrollment in school district driver training programs serving nonhandicapped students has decreased from 327,482 in 1977-78 to 205,206 in 1984-85. This decrease reflects two factors: (1) the decline in high school enrollment (from 1,341,448 to 1,278,447 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 16 percent of comparable enrollment in 1984-85).

Because of the decline in driver training enrollments, the Department of Education has indicated that apportionments to local school districts in 1985-86 will be \$18,465,000. This is \$1,035,000 less than the \$19,500,000 appropriated to the State School Fund for local assistance in the current year. Under existing law, the full amount of this unexpended balance will revert to the General Fund on June 30, 1986.

The Driver Training Program provides reimbursement for costs in the year following the year in which these costs were incurred. Consequently, in 1986-87, local school districts will receive reimbursements for driver training expenses incurred during the 1985-86 school year.

The Population Research Unit of the Department of Finance estimates that enrollment in California high schools during 1985-86 will be approximately 2.0 percent higher than it was in 1984-85. Since the percentage of high school students completing driver training has been falling, this makes it extremely unlikely that driver training enrollments in 1985-86 were more than 2 percent above the 1984-85 level. On this basis, we estimate that the *maximum* funding requirement for the driver training program in 1986-87 is \$18,750,000—or \$750,000 less than the amount proposed in the budget.

Accordingly, we recommend that the Legislature reduce the amount budgeted for driver training by \$750,000. Assuming the Legislature approves Control Section 24.10 in the Budget Bill (discussed below), the adoption of this recommendation will result in a General Fund increase of \$750,000 in the budget year.

**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, 1987. This amount represents the surplus in the DTPAF after the driver training program and related programs have been funded for the budget year. The estimate of General Fund revenues contained in the Governor's Budget includes \$20 million attributable to this control section.

Control Section 24.10 would continue existing legislative policy and, on that basis, we recommend that it be approved.

**j. Federal Block Grant—ECIA Chapter 2 (Items 6100-101-890 and 6100-001-890)**

In 1982–83, the federal government consolidated approximately 30 categorical grant programs into a single block grant. The authorizing legislation for the block grant—the Education Consolidation and Improvement Act, Chapter 2—requires that at least 80 percent of the grant be allocated to local school districts using an enrollment-based formula. Federal law prohibits the state from specifying how these funds should be used by local school districts. The balance of the Chapter 2 funds—up to 20 percent of the total grant—may be retained for discretionary expenditures by the State. These funds may be used for state operations or to finance grants for specific programs.

Federal law requires that an advisory committee be formed to make recommendations regarding (1) the formula used to allocate at least 80 percent of Chapter 2 funds to all local school districts and (2) the allocation of funds used for state discretionary purposes. The 24 members of California's Chapter 2 advisory committee are appointed by the Governor.

The budget proposes a total of \$48,015,000 for ECIA Chapter 2 programs in the budget year (\$40,444,000 in Item 6100-101-890, and \$7,571,000 in Item 6100-001-890). This is the same level of funding which California received in the current year.

**Current- and Budget-Year Allocations**

Language contained in the *Supplemental Report of the 1985 Budget Act* requires the Superintendent of Public Instruction to submit to the legislative fiscal committees by January 15, 1986, an expenditure plan for the state discretionary portion of the federal ECIA Chapter 2 block grant funds in 1986–87. This plan has been concurred in by the Governor's Chapter 2 Advisory Committee and submitted to the Legislature.

Table 40 summarizes the ECIA Chapter 2 allocations in the current year, and the preliminary allocations proposed by the Chapter 2 Advisory Committee for the budget year.

**Formula Allocations.** As the table shows, the budget proposes to allocate \$38.4 million (or 80 percent of California's total Chapter 2 grant) to local school districts on a formula basis. In accordance with the Governor's Chapter 2 Advisory Committee recommendations, the formula used during the current-year will be used to allocate funds in the budget year. This formula provides for the allocation of funds to each school district based on the district's total public and private school enrollment, with additional funds provided for (1) each student who receives Aid to Families with Dependent Children (AFDC) and (2) each student who is classified as Limited English Proficient (LEP). A minimum allocation of \$3,368 will be provided to each district. (Under federal law, a portion of the funds each district receives must be used to provide services to students in private schools.)

## DEPARTMENT OF EDUCATION—Continued

Table 40  
K-12 Education  
ECIA Chapter 2 Allocations  
1985-86 and 1986-87

	Est. 1985-86	Prop. 1986-87
Formula Allocations:.....	\$38,412	\$38,412
State Purposes:		
A. Budget Act Mandates:		
Constitutional Rights Foundation .....	\$275	\$275
Federal Teacher Centers .....	295	295
Parenting programs (Ch 1619/84) .....	300	—
Subtotals, State Purposes .....	\$870	\$570
B. Superintendent's Priority Projects:		
Non public schools .....	\$200	\$200
School improvement.....	122	122
Curriculum Training and Development:		
California Literature Project .....	300	300
History/Social Science Project .....	385	300
Curriculum training .....	55	—
K-8 curriculum guides .....	100	100
California Reading Initiatives.....	—	100
Middle Grade Task Force .....	—	70
Accreditation training .....	—	100
Principal and community training .....	—	65
Humanities Project .....	—	20
California Geography Project .....	—	15
Educational career development assessment.....	—	70
Subtotals, Superintendent's Priority Projects .....	\$1,162	\$1,462
C. State Operations:.....	\$7,571	\$7,571
Totals .....	\$48,015	\$48,015

**Discretionary Allocations.** The budget proposes that \$9.6 million (20 percent of the total Chapter 2 block grant) be retained for state discretionary expenditures in 1986-87. The Chapter 2 Advisory Committee recommends that these funds be used to promote effective schools, focusing on (1) improving the academic curriculum, (2) youth employment, and (3) assessment, research and evaluation.

As shown in Table 40, the advisory committee recommends that (1) \$355,000 in funding for two programs—the parenting program established by Ch 1619/84 (AB 3031), and curriculum training—be eliminated, and (2) funding for the History/Social Science Project be reduced by \$85,000. The committee recommends that the \$440,000 in funding freed up as a result of these reductions be used to support the following activities:

- **California Reading Initiatives**—\$100,000 to (1) increase student access to books and other reading materials, and (2) train teachers in the selection and use of the reading materials;
- **Middle Grade Task Force**—\$70,000 to implement recommendations expected from a task force established in January 1986;
- **Accreditation Training**—\$100,000 to train local curriculum experts in techniques for helping teachers analyze and improve curriculum and instruction;
- **Principal and Community Training**—\$65,000 to support a pilot training program for administrators in building a community constituency;
- **Humanities Project**—\$20,000 to provide training for interdisciplinary humanities teaching in the high schools.



- **California Geography Project**—\$15,000 to (1) support a summer institute that will train 150 teachers, (2) implement the K-12 model curriculum standards for geography, and (3) develop materials for teaching geography; and
- **Educational Career Development Assessment**—\$70,000 to develop criteria that will be useful to local school districts in (1) hiring new teachers, (2) granting tenure to probationary teachers, and (3) selecting experienced teachers for career development options.

### **Legislative Directives Ignored**

*We recommend that the Legislature adopt Budget Bill language specifying that funds appropriated for federal ECIA Chapter 2 in Item 6100-101-890 shall be used for the purposes of funding (1) a hazardous substances project and (2) a study on dropouts, which were required in the 1985 Budget Act, and the Supplemental Report of the 1985 Budget Act.*

In the *Supplemental Report of the 1985 Budget Act*, the Legislature required the Superintendent of Public Instruction to allocate Chapter 2 discretionary funds for a project to compile and disseminate information on hazardous substances in schools. The Legislature also included language in the report requiring the Superintendent to allocate Chapter 2 discretionary funds for the purpose of conducting a specified study on dropouts (provided sufficient funds for this purpose were not available from other sources).

The Superintendent has failed to comply with the Legislature's directives.

**Hazardous Substances Project.** Last year, the State Department of Education (SDE) requested an augmentation of \$142,000 from the General Fund to fund a project relating to hazardous substances in the schools. Specifically, the SDE proposed to:

- Collect information regarding the prevalence of toxic substances in schools;
- Assess the hazards posed by these substances; and
- Present information on hazardous substances to school districts, and suggest ways in which they could alleviate the hazards.

The SDE determined that such a project was necessary due to the great variety of toxic substances in schools and the number of laws governing them.

The Legislature agreed that the department's proposal had merit. Instead of granting an augmentation for the project, however, the Legislature adopted supplemental report language requiring that the SDE (1) allocate funds from the Superintendent's Chapter 2 discretionary funds for the project and (2) report to the Joint Legislative Budget Committee by November 1, 1985 on the status of the project.

The SDE submitted the required report to the Legislature on December 23, 1985. The report merely describes the various activities that the SDE currently is involved in as a result of requirements imposed by legislation relating to toxic substances. The report asserts that these various efforts "will result in the development of a comprehensive data bank on toxic substances . . . and a capacity to disseminate this information." The report, however, *does not* specify when this will occur, nor does it identify any amount of Chapter 2 funds allocated for the project.

Our review of the Chapter 2 spending plan for 1985-86 shows that the SDE allocated none of these funds for the toxic substances project.

**DEPARTMENT OF EDUCATION—Continued**

**Dropout Study.** The Legislature adopted language in the *Supplemental Report of the 1985 Budget Act* expressing its intent that an in-depth study be conducted regarding the number and characteristics of high school dropouts. Specifically, the Legislature required that the study:

- Be based upon a stratified sample of school districts having sufficient size and scope to ensure that the findings of the study accurately measure the statewide dropout rate; and
- Identify the factors which are positively or negatively associated with the probability that a student will complete a high school education.

The Legislature further specified that the Superintendent of Public Instruction shall allocate funds for the study from the Superintendent's Chapter 2 discretionary funds, if sufficient funds for the completion of the study are not available from other state, federal, or local public or private sources.

Our review indicates that the SDE is conducting a research study of the dropout problem that merely reviews the available literature on the topic. The SDE is *not* conducting a study based on a stratified sample of school districts as specified in the supplemental language. The SDE claims that it cannot conduct such a study without additional funds.

The Legislature recognized that the department would need funding for the study. That is why it required that the study be funded using the Superintendent's discretionary Chapter 2 funds, if other funds were not available. Our review of the Chapter 2 spending plan for 1985-86, however, shows that the SDE allocated none of these funds for the dropout study.

**Recommendation.** Our review indicates that, by failing to allocate Chapter 2 discretionary funds for either the hazardous substances project or the study on dropouts, the SDE has chosen to ignore the legislative directives contained in the *Supplemental Report of the 1985 Budget Act*. Accordingly, we recommend that the Legislature require the Superintendent of Public Instruction to allocate funds for these projects in the budget year out of his 1986-87 Chapter 2 discretionary funds. This can be accomplished by adopting the following Budget Bill language in Item 6100-101-890:

"Provisions:

(—) Of the funds appropriated in this item, \$142,000 shall be used for the purposes of funding a project to assess the hazards of toxic substances in school and disseminate this information to school districts via the county offices of education. The Superintendent of Public Instruction shall report to the Joint Legislative Budget Committee by November 1, 1986, regarding the status of this project.

(—) Of the funds appropriated in this item, an unspecified amount shall be used for the purpose of conducting an in-depth study regarding the numbers and characteristics of students who stop attending school before graduating from high school. This study shall be based upon a stratified sample of school districts of sufficient size and scope to ensure that the findings of the study shall accurately measure the statewide dropout rate and shall identify factors which are positively or negatively associated with the probability that a student will complete a high school education. The expenditure of funds for this purpose shall be subject to the approval of the Director of Finance, provided that such expenditure may not be authorized sooner than 30 days after the notification in writing of the necessity therefor to the chairperson of the

committee in each house which considers appropriations and the Chairperson of the Joint Legislative Budget Committee, or not sooner than whatever lesser time the chairperson of the joint committee, or his or her designee, may in each instance determine."

## II. ANCILLARY SUPPORT FOR K-12 EDUCATION

This section analyzes those programs which complement the direct instructional support function, including (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. In addition, the department administers the School Bus Driver Instructor Training program.

#### 1. Home-to-School Transportation (Item 6100-111-001(a))

The home-to-school transportation program provides state reimbursement for the approved transportation costs of local school districts and county superintendents of schools, up to a specified amount. The program also funds transportation to and from related student services required by the individualized education programs of special education pupils. The state also provides assistance to small school districts for bus replacement.

Under current law, a district's home-to-school transportation apportionment is determined on the basis of two factors—the district's total approved expense and (2) the district's prior-year allowance. Specifically, if a district's total approved expense for the current year is at least 95 percent of the transportation allowance received in the prior year, that district's allowance for the current year will be the prior-year allowance plus the COLA provided in the Budget Act. If, on the other hand, a district's total approved expense drops below 95 percent of its prior-year allowance, the district will receive an apportionment equal to its actual prior-year expense, plus the COLA provided in the Budget Act, plus 5 percent. The additional 5 percent is intended to provide an incentive for districts to economize by allowing them to capture a portion of the savings.

**Table 41**  
**K-12 Education**  
**Transportation Aid\***  
**1984-85 through 1986-87**  
**(dollars in thousands)**

	Actual 1984-85	Est. 1985-86	Prop. 1986-87	Change from 1985-86	
				Amount	Percent
Home-to-school transportation.....	\$274,642	\$285,938	\$291,657	\$5,719	2.0%
Small school district bus replacement .....	3,000	3,120	3,182	62	2.0%
Totals .....	\$277,642	\$289,058	\$294,839	\$5,781	2.0%

\*General Fund

**DEPARTMENT OF EDUCATION—Continued**

To date no district has been able to qualify for the 5 percent incentive. This is because most districts either are unable to reduce their costs—perhaps because they face a steady or increasing workload—or have total approved costs that are well above their allowance (so that only a large reduction in cost would cause the approved expense to drop below 95 percent of the prior-year allowance).

Table 41 shows funding for transportation aid in the prior, current, and budget years.

**a. Transportation****Technical Issue: Funds Improperly Budgeted**

*We recommend that the Legislature transfer \$69,000 from the home-to-school transportation item to the associated COLA item, in order to reflect accurately the distribution of these funds. (Reduce Item 6100-111-001 (a) by \$69,000 and increase Item 6100-226-001 (a) (8) by \$69,000.)*

The Governor's Budget requests \$291,657,000 from the General Fund for home-to-school transportation aid in 1986–87. This is an increase of \$5,719,000, or 2 percent (COLA), over the current-year funding level.

Our review indicates that the Budget Bill incorrectly distributes the funds requested for home-to-school transportation between the main item and the COLA item. To reflect accurately this distribution of funds, we recommend that the Legislature reduce funding in the home-to-school transportation item by \$69,000 and increase funding in the COLA item by an equivalent amount.

**A New Funding Formula is Needed For Home-To-School Transportation**

*We recommend that the Legislature direct the State Department of Education to present one or more alternative formulas for funding home-to-school transportation that satisfy specified criteria, at least one of which incorporates a bus-based approach.*

We believe that a home-to-school transportation funding formula should be evaluated in terms of the following four criteria:

- *Does the formula fund legitimate cost increases?* The allocation formula should take into account expenses associated with legitimate workload increases that are beyond a district's ability to control, and that require the district to provide an increased level of service.
- *Does the formula accurately reflect all components of a district's transportation costs?* The formula should take into account all cost factors associated with the operation of the transportation program. These factors should include the cost of bus depreciation as well as the cost of bus maintenance and operation.
- *Is the formula administratively efficient?* The formula should minimize the amount of time and expense needed to operate it. The formula should not impose unnecessary administrative burdens on the State Department of Education, the Legislature, or local education agencies.
- *Does the formula promote efficiency?* The formula should encourage local education agencies to employ the least-cost method for providing transportation services.

**Current Formula Does Not Satisfy Criteria.** Our review indicates that the current method used to fund home-to-school transportation does not satisfy the criteria outlined above.

*First, the system fails to provide increased funding in response to legiti-*

mate cost increases that are beyond a district's control. Many school districts, for example, have experienced workload increases because of general enrollment growth or growth in the numbers of special education pupils needing transportation. By limiting the increase in a district's allowance to the COLA provided in the Budget Act, the formula fails to provide additional funding to accommodate the additional workload.

*Second*, the funding system does not recognize all components of a district's transportation costs. For example, districts that provide their own transportation services are not allowed to claim the expense associated with the depreciation of their school buses. In contrast, districts that contract with private companies for transportation services may claim the full amount of these costs—including bus depreciation costs that are reflected in contractors' rates. As a result, some districts may choose to contract for transportation services, even though the total cost of providing their own transportation services would be less. Alternatively, some districts providing their own transportation services may choose simply to ignore depreciation costs, hoping that the state eventually will pay for bus replacement.

*Third*, the funding system unnecessarily burdens the Legislature with matters that could be handled in a less-costly manner on an administrative basis. Under the terms of the home-to-school transportation funding formula, a district must have received an allowance in the prior year in order to qualify for state aid in the current year. The formula provides no mechanism for school districts establishing new programs to qualify for home-to-school transportation aid. Instead, districts that establish new programs must seek special legislation in order to establish a prior-year "allowance" for funding purposes.

*Finally*, to the extent that the current system encourages school districts to use least-cost approaches to providing transportation services, it does so in a haphazard and inequitable manner. The system provides very strong incentives to economize for districts whose home-to-school transportation costs have—for whatever reasons—grown in excess of their state aid allowances. In districts that are experiencing stable or declining workloads, however, these incentives are weaker.

**Alternative Funding Model.** We have developed a model for an alternative transportation funding formula that we believe satisfies the criteria outlined above. Under this alternative, school districts' transportation apportionments would be based upon two factors:

- **Number of buses in operation.** All districts would receive a specified amount per bus, in recognition of such bus-related costs as drivers' salaries, bus storage, maintenance, and insurance. This amount would be adjusted by a "utilization factor" in order to reflect the extent to which buses are used and to encourage their maximum utilization.
- **Number of miles driven.** Districts would also receive a specified amount per mile, in recognition of such mileage-reduced costs as fuel and bus depreciation. Districts that choose to provide their own transportation services would be required to set aside the depreciation component of this mileage-related amount in a separate fund for bus replacement.

A bus-based formula would (1) provide funding for workload increases, (2) reflect all components of a district's transportation costs, (3) be administratively efficient, and (4) offer opportunities to promote cost-effective delivery of transportation services. This last criterion would be

**DEPARTMENT OF EDUCATION—Continued**

satisfied by the bus utilization factor, which encourages efficiency by providing districts with funding based not only on the number of buses operated, but on how intensively those buses are utilized.

**Recommendation.** Our review indicates that the current home-to-school transportation formula does not adequately serve the needs of either the state or local agencies and should be replaced.

We recognize that a bus-based formula is only one of several alternatives that might bring about a significant improvement in the way home-to-school transportation funds are allocated. The Legislature will probably wish to consider other alternatives as well. Accordingly, we recommend that the Legislature direct the Department of Education, at the time of budget hearings, to present one or more specific alternative funding formulas for home-to-school transportation. The formula(s) should, to the extent possible, satisfy the criteria identified in this analysis, and at least one of the alternatives presented should be based upon the bus-based model described above. In presenting the alternative(s), the SDE should also provide information comparing what each school district's allocation would have been under the alternative to (1) the district's allowance under the current system and (2) the district's reported total approved expense.

**Proposed Funding for School Bus Replacement**

*We recommend that the Legislature adopt Budget Bill language in Item 9895-001-942, for the purpose of establishing a revolving fund from which loans would be provided to local education agencies in order to finance school bus purchases.*

The budget requests \$100 million from the Petroleum Violation Escrow Account (Item 9895-001-942) for the purchase of school buses. (Funding for this account is derived from settlements and judgments against U.S. oil companies stemming from legal actions by the federal government to recover amounts overcharged during the period in which oil prices were regulated.

The budget states that the \$100 million "will provide funds to purchase approximately 1,300 safe, fuel-efficient buses." Under the proposal, the State Department of Education would serve as the administrative and fiscal agent for these funds. The California Highway Patrol, however, would be charged with establishing priorities for the allocation of the funds, based upon a yet-to-be-completed engineering study.

It is unclear whether PVEA funds may be used in the manner contemplated by the Governor. We hope to receive further clarification on this point from the federal Department of Energy prior to budget hearings on this issue.

If PVEA funds may be used to finance the purchase of school buses, however, we propose that the funds be used in an alternative way.

**Demand for School Bus Replacement.** Our review indicates that the demand for school bus replacement among school districts is significant. The Department of Education estimates that there are approximately 3,685 school buses in use in California that are beyond their "service lives." Many of these buses are more than 30 years old. In addition, a large number of school buses in current use were manufactured before 1977 and, therefore, do not meet federal safety standards which took effect that year. We estimate that the cost of replacing all pre-1977 buses would approach \$500 million.

It is less clear, however, the extent to which this *demand* for school bus replacement translates into a *need* for additional state aid. Many school districts have been able to purchase school buses using existing resources. Many other districts could afford to do so if financing were available to match the long service lives (typically 15 years or more) of school buses.

**Recommendation.** The \$100 million proposed by the Governor for school bus replacement could assist a greater number of school districts if it were used to fund loans, rather than grants. Using the funds in this way would have two other advantages, as well: (1) it would treat all school districts equitably and (2) it would reduce pressures on the state budget for school bus replacement aid in the future.

In contrast, the Governor's proposal would generate additional demand for state aid, since those districts which were not successful in securing funds would push for further appropriations. In addition, the budget proposal would reward those districts that failed to set aside funds for school bus replacement—and implicitly penalize those districts that have financed bus purchases from their existing resources.

A loan program of the type we propose could be operating in conjunction with any home-to-school transportation funding system. We believe, however, that it would fit most easily into a system that provides funding based, in some measure, on bus depreciation costs (such as the bus-based system described earlier in this section). The funding provided for depreciation could either be used by districts as a "savings account" to finance future bus purchases, or it could be used to repay loans received from the bus replacement revolving fund.

Provided the use of PVEA funds for bus replacement is permissible, therefore, we recommend that the Legislature adopt the following Budget Bill language in Item 9895-001-942 making \$100 million in these funds available for loans, rather than for grants:

"Of the funds appropriated in this item, \$100 million shall be used to establish a revolving fund from which loans will be made to local education agencies for the purpose of financing school bus purchases. The fund shall be administered by the Superintendent of Public Instruction. Prior to allocating any funds for this purpose, the Superintendent of Public Instruction shall obtain statutory authorization for a loan approval and repayment plan."

#### **b. Small School District Bus Replacement (Item 6100-111-001(b))**

*We recommend approval.*

Table 41 also shows the amount of funding provided for small school district school bus replacement in the prior, current, and budget years. Under this program, school districts with fewer than 2,501 ADA may receive funds for the replacement or reconditioning of school buses. In allocating these funds, the law assigns first priority to the replacement of school buses that cannot be reconditioned, second priority to the reconditioning of unsafe school buses, and third priority to the purchase of new buses to expand the district's fleet.

The Governor's Budget proposes to appropriate \$3,182,000 for the program in 1986-87. This is an increase of \$62,000, or 2 percent, over the current-year funding level. Because our review indicates that these funds are being expended in accordance with legislative intent, we recommend that the amount requested be approved as budgeted.

**DEPARTMENT OF EDUCATION—Continued****2. 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 that prepares teachers to instruct classes for prospective school bus drivers. Since 1974, state law (Section 1204, California Administrative Code) has required all public school bus drivers to complete 40 hours of training provided by an instructor who has been trained under this program.

The budget requests \$633,000 from the Driver Training Penalty Assessment Fund for this program in 1986-87. This is an increase of \$83,000 over current-year funding. This increase would be distributed as follows:

- \$46,000 for increased employee compensation,
- \$21,000 for increased pro rata assessments to support administrative costs of various state agencies (charged against all special funds) and
- \$16,000 for increased rent charged by the California Highway Patrol for training facilities.

Our review indicates that the budget request is reasonable, and we therefore recommend that the amount requested be approved as budgeted.

**B. SCHOOL FACILITIES PROGRAMS**

School facilities programs include:

- Incentive payments to districts for the use of year-round schools or alternatives to the construction of new school facilities;
- The School Facilities Planning Unit within the Department of Education;
- The School Facilities Asbestos Abatement program (discussed in Item 6350, later in this *Analysis*);
- Construction, reconstruction, or deferred maintenance of school facilities; and
- Emergency portable classrooms.

Funding for the first three of these activities is included in the annual Budget Act, while funds for the last two are provided through statutory appropriations. The allocation of funds under these programs are determined by the State Allocation Board (SAB), which includes members of the Legislature and representatives of the Department of Finance, the Department of Education, and the Department of General Services.

**1. School Facilities Aid**

Funding for the construction, reconstruction, or deferred maintenance of school facilities is provided through the following three major statutory appropriations, each of which is available for expenditure irrespective of fiscal year:

- *Proceeds from bond sales.* The voters have authorized the state to raise funds for the construction and rehabilitation of school facilities by approving the State School Building Lease-Purchase Bonds Acts of 1982 (Proposition 1) and 1984 (Proposition 26). The former authorized the sale of \$500 million in bonds—\$350 million for the construction of new school facilities and \$150 million for reconstruction and rehabilitation of facilities that are more than 30 years old. The last of



these funds was fully allocated in 1984-85. Proposition 26 authorized the sale of \$450 million in bonds, of which at least \$250 million is for new construction. At the time this analysis was written, \$285 million of these funds had not yet been allocated. The State Allocation Board (SAB), however, estimates that these funds will be fully committed by Spring 1986.

- **Tidelands oil revenues.** Current law appropriates \$150 million of these revenues annually, through 1988-89, for the school construction program. Of this amount, up to 5 percent may be used each year for the Emergency Classroom program, with the balance used primarily for new construction. (As discussed below, the Governor proposes to defer until 1989-90 the \$150 million statutory appropriation required for 1986-87.)
- **School district "excess" repayments.** These payments represent the amount by which school district principal and interest payments on state School Building Aid loans exceed debt service requirements on state school construction bonds. Excess repayments, which are estimated at \$93.9 million in the current year and \$89.9 million in the budget year, are used primarily to fund school district deferred maintenance projects, with any remaining amount going to fund new construction.

Table 42 shows the total amount of revenues authorized in current law for school facilities aid during the prior, current, and budget years, as well as the revised allocation proposed by the Governor's Budget. We note that actual expenditures under the SAB-administered programs in a given year may not equal the revenues to the State School Building Lease-Purchase Fund or the Deferred Maintenance Fund during that year because (1) reserves may be used to finance project grants and (2) the SAB may choose not to allocate all revenues that become available during any one year.

**Budget Proposal.** The Governor's Budget proposes to allocate a total of \$309.2 million for school facilities aid during 1986-87 as follows:

- **\$200 million from Proposition 26 bonds.** The SAB indicates, however, that these funds will be fully committed by spring 1986 and, consequently, will not be available during the budget year;
- **\$89.9 million from "excess repayments".** These funds would be used to finance deferred maintenance. (Control Section 24.30 of the Budget Bill would authorize the SAB to make additional apportionments to school districts, on a matching basis, above the limits established by current law);
- **\$4.9 million from the General Fund.** This amount would be transferred to the Asbestos Abatement Fund for apportionments to school districts during 1986-87. (Although the budget identifies \$5 million for asbestos abatement projects, \$100,000 of these funds are proposed to reimburse the Department of Industrial Relations for site monitoring of local projects and, consequently, would not be available to local schools.);
- **\$10.5 million from rental income generated from portable relocatable classrooms (\$2.9 million) and unexpended tidelands oil revenues (\$7.6 million).** These funds would be used to finance the construction of portable/relocatable classrooms. The transfer of the \$7.6 million would require statutory authority;
- **\$3.9 million from lease-purchase rental revenues.** These funds would be used for the State School Building Lease-Purchase program; and

## DEPARTMENT OF EDUCATION—Continued

**Table 42**  
**K-12 Education**  
**Revenues Available for School Facilities Aid <sup>a</sup>**  
**1984-85 to 1986-87 and Governor's Proposed Allocation**  
**(dollars in millions)**

	Actual 1984-85	Est. Current Law		Est. Governor's Proposal	
		1985-86	1986-87	1985-86	1986-87
State School Building Lease-Purchase Program (Construction and Reconstruction):					
Tidelands Oil Revenues .....	—	\$285.0 <sup>b</sup>	\$142.5	\$271.2 <sup>c</sup>	— <sup>d</sup>
State School Building Lease-Purchase Bond Act of 1982 (Proposition 1) .....	\$190.0	—	—	—	—
State School Building Lease-Purchase Bond Act of 1984 (Proposition 26) .....	—	450.0 <sup>e</sup>	—	250.0	\$200.0 <sup>f</sup>
School Building Aid Bonds (Ch 764/84) .....	—	—	40.0	—	—
Lease-Purchase Rental Revenues .....	3.8	3.8	3.9	3.8	3.9
Federal funds <sup>g</sup> .....	—	28.5	—	28.5	—
Subtotals, State Building Program .....	\$193.8	\$767.3	\$186.4	\$553.5	\$203.9
Deferred Maintenance (excess repayments) <sup>h</sup> ..	\$89.2	\$93.9	\$89.9	\$93.9	\$89.9
Emergency Classroom Program <sup>i</sup> .....	7.5	7.5	7.5	7.5	—
Asbestos Abatement Program .....	—	19.9	—	19.9	4.9
Portable/relocatable classrooms .....	5.2	2.8	2.9	9.0	10.5
Federal funds <sup>g</sup> :					
Child care facilities .....	—	36.5	—	36.5	—
Child care capital outlay .....	—	7.3	—	7.3	—
Air conditioning .....	—	13.5	—	13.5	—
Totals .....	\$295.7	\$948.7	\$286.7	\$741.1	\$309.2

<sup>a</sup> This table illustrates only the revenue sources provided by current statutes. This is not a fund condition statement and, accordingly, does not include any beginning balances for each school facilities program.

<sup>b</sup> Includes \$142.5 million which was not spent in 1984-85 and was carried over to 1985-86.

<sup>c</sup> Excludes \$13.8 million proposed by Governor to be spent for emergency classrooms in 1985-86 (\$6.2 million) and 1986-87 (\$7.6 million).

<sup>d</sup> Assumes enactment of Governor's proposal to defer this statutorily-required appropriation until 1989-90.

<sup>e</sup> Assumes that all funds from Proposition 26 bonds will be committed in 1985-86.

<sup>f</sup> Although the budget identifies these funds as available in 1986-87, the SAB indicates they will be fully committed in 1985-86 (see footnote 'e').

<sup>g</sup> Settlement funds received pursuant to Section 8(g) Outer Continental Shelf Lands Act.

<sup>h</sup> School districts receive apportionments from the State School Deferred Maintenance Fund 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.

<sup>i</sup> Up to 5 percent of tidelands oil revenues to the State School Building Lease-Purchase Fund during fiscal years 1984-85 to 1988-89 may be used for the Emergency Classroom Program (pursuant to Section 6217f(2) of the Public Resources Code).

- **An unidentified amount from a proposed general obligation bond issue.** The Governor proposes that this proposal be placed on the June 1986 ballot. We note, however, that no measure authorizing general obligation bond sales has qualified for the June ballot.

The Governor's Budget does not propose the statutorily-required \$150 million appropriation from tidelands oil for use in 1986-87. Instead, the budget requests that the appropriation of these funds be deferred until

1989-90. The deferral of these funds from 1986-87 to 1989-90 would require a change in existing law.

In addition, the Governor's Budget does not identify \$40 million in revenue available pursuant to Chapter 764, Statutes of 1984 from unsold State School Building Aid bonds. Information from the SAB indicates that these bonds will be sold and the proceeds available during the budget year.

In sum, the next effect of the Governor's Budget proposal is to reduce current funding obligations for school construction in 1985-86 and 1986-87 by \$185.1 million: deferral of \$150 million in tidelands oil revenues, delayed sale of \$40 million in School Building Aid bonds, and an increase of \$4.9 million for asbestos abatement projects.

**Other proposals.** The budget also contains several other proposals relating to school facilities for which a specific dollar amount has not been identified. These proposals would:

- Establish a partnership between the State and local school districts whereby (1) local school districts would be required to provide an unidentified portion of construction funds and (2) an unidentified portion of any new school facility would have to be composed of relocatable facilities;
- Provide incentives to encourage school districts to adopt year-round school programs. The budget includes no details as to what these incentives might be;
- Authorize the formation of benefit assessment districts for financing the construction of elementary school facilities (legislation required); and
- Better define the scope and use of developer fees, including making such fees more uniform (legislation required).

#### **a. State School Building Lease-Purchase Program**

Through the State School Building Lease-Purchase program, the SAB apportions funds to local school districts for (1) acquisition and development of school sites, (2) construction or reconstruction of school buildings and (3) purchase of equipment for newly-constructed buildings.

**Construction Funds.** In order to establish their eligibility for school construction funds appropriated to the State Allocation Board, school districts must demonstrate that they are experiencing overcrowding and are fully utilizing all available facilities. (In a very small number of cases, districts receive new school construction funds from the SAB for reasons other than overcrowding—for example, where a school has been destroyed by an earthquake.)

**Reconstruction Funds.** Districts may be eligible to receive funds for the reconstruction of school facilities that are more than 30 years old and have not been substantially reconstructed within the past 30 years, provided they will continue to be utilized as schools for the foreseeable future. The maximum allocation provided for reconstruction of any building is 25 percent of the building's current replacement value.

**Rental Agreement.** School districts "rent" the newly-constructed or reconstructed facilities from the state under a long-term, lease-purchase agreement that transfers title to the facility from the state to the district within 40 years. In most cases, rent is paid to the state at the rate of \$1 per year, plus (1) specified revenues from the sale of surplus school sites, and (2) any interest earned on state funds deposited in the county school

**DEPARTMENT OF EDUCATION—Continued**

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 to the districts for school construction or reconstruction.

**Legislation Needed To Facilitate Borrowing By School Districts**

*We recommend that the Legislature enact legislation, contingent upon voter approval of ACA 55, guaranteeing school districts a specified minimum yield from a given property tax rate.*

The Legislature has taken the first step towards restoring school districts' revenue-raising abilities by approving ACA 55. This measure, which will appear on the June 1986 ballot, provides that a local government may—with the approval of two-thirds of the district's voters—incur bonded indebtedness for site acquisition and capital outlay, and pay off the bonds by temporarily increasing the property tax rate.

In order to ensure that all districts, regardless of their property tax base wealth, are able to raise the revenues needed to finance their local school facilities needs, we recommend that the Legislature enact companion legislation to ACA 55. This legislation would guarantee every school district a certain revenue yield from a given property tax rate. This recommendation is discussed in greater detail in *The 1986-87 Budget: Perspectives and Issues*, and is summarized on page 1120 of this Analysis.

**b. Deferred Maintenance—Control Section 24.30**

*We recommend approval.*

The State Allocation Board apportions funds from the State School Deferred Maintenance Fund on a matching basis to school districts for (1) deferred maintenance or (2) elimination of asbestos-related health hazards. State funds are provided at the rate of one dollar for every one dollar of local funds contributed to the district's deferred maintenance fund. Under current law, the amount of this apportionment generally is limited to a maximum of one-half of one percent of the district's total general fund budget (excluding capital outlay).

Funding for the State School Deferred Maintenance Fund is provided from "excess repayments"—the amount by which school district payments on State School Building Aid loans exceed the amount needed to service state school construction bonds issued under that program. From the "excess repayments" received each fiscal year, the State Allocation Board (SAB) transfers to the State School Deferred Maintenance Fund the maximum amount which can be apportioned to school districts under current law. Any remaining "excess repayments" generally are transferred to the State School Building Lease-Purchase Fund.

The budget indicates that in 1986-87, excess repayments will total \$89,854,000. The budget proposes that the entire amount be transferred to the State School Deferred Maintenance Fund. This amount, however, exceeds—by approximately \$24 million—the maximum amount which, under current law, may be allocated during the budget year to school districts for deferred maintenance.

Control Section 24.30 of the Budget Bill authorizes the SAB during 1986-87 only to make deferred maintenance apportionments to local school districts exceeding the one-half-of-one percent limit set by current law, to the extent funds are available from excess repayments transferred

into the State School Deferred Maintenance Fund. In order to be eligible to receive an additional deferred maintenance apportionment, a school district would be required to (1) submit an application to the SAB and (2) certify that an equivalent amount of *additional* district funds will be allocated for deferred maintenance.

In the current year, the SAB has received approximately 900 applications requesting \$78 million in deferred maintenance funds. The board anticipates that it will receive \$83 million in deferred maintenance requests during the budget year.

We estimate that approval of Control Section 24.30 would enable the board to allocate up to \$89 million—rather than \$66 million—in deferred maintenance funds during 1986–87. Without this provision, these funds would otherwise be transferred to the State School Building Lease-Purchase Fund to support new school construction and reconstruction. Because this control section gives the SAB the flexibility to spend these funds for either deferred maintenance or construction—wherever the need is greatest—we recommend approval of Control Section 24.30

### **c. Emergency Classrooms**

Through the Emergency Classroom program, the SAB allocates funds for the acquisition and installation of relocatable classroom facilities, including furnishings, to districts with overcrowded schools. The classrooms may be relocated to another school site when they are no longer needed because of declining enrollments or the availability of new facilities. Districts rent these portable classrooms, on a year-to-year basis, at an annual cost of \$2,000 per building. Rental income, which will total approximately \$2.9 million in 1986–87, is used by the SAB for the construction and installation of additional emergency classrooms.

The budget also proposes that an additional \$7.6 million in unexpended tidelands oil revenues be transferred to this program in 1986–87, bringing total funding to \$10.5 million. The proposed transfer of funds from tidelands oil revenues will require statutory authorization.

### **Expedite Delivery of Emergency Classrooms**

*We recommend that the State Allocation Board and the Department of General Services report during budget hearings on the feasibility of further accelerating the delivery of emergency classrooms in 1986–87.*

In our *Analysis of the 1985–86 Budget Bill*, we discussed the failure of the Department of General Services' Office of Local Assistance to review and approve applications for emergency classroom facilities on a timely basis. At the time we prepared the analysis, the office was taking a minimum of one year to process applications, and none of the funds allocated for the program had been used.

A recent review of the program indicates that these delays have been eliminated. Information from the board indicates that all of the funds appropriated in the current year have been spent, and that the processing time for review and approval of applications has been reduced to between 30 and 60 days.

There is still room for reducing unnecessary delay in the delivery of the classrooms. Currently, it takes eight months from the time the Department of General Services' Office of Procurement prepares a purchase order estimate until all classrooms are delivered. In fact, it takes approximately three months before a final purchase order can be issued.

At the time this analysis was prepared, the board had on file 15 requests

**DEPARTMENT OF EDUCATION—Continued**

for 74 classrooms in excess of the funding available in the current year; these requests, and any others received during the current year, can not be funded until the budget year. Because it can take as long as eight months for the office to issue a purchase order and construct the classrooms, it is unlikely that the districts with applications now on file will receive their classrooms prior to January 1987. If, however, the Department of General Services' Office of Procurement completed all the necessary administrative work *in advance* of the budget year so that the purchase order could be issued soon after the budget year began, delivery of the emergency classrooms in the budget year could be accelerated by approximately three months.

Our analysis indicates that the Emergency Classroom program can provide a quick and cost-effective solution to overcrowding in schools, and we see no justification for unnecessarily delaying the delivery of these classrooms. Accordingly, we recommend that the SAB and the Department of General Services report during budget hearings on the feasibility of completing the purchase order work in advance of the budget year, thereby expediting the delivery of the emergency classrooms during 1986-87.

**2. Department of Education—School Facilities Planning (Item 6100-001-344)**

*We recommend approval.*

The budget includes \$716,000 from the State School Building Lease-Purchase Fund for support of the School Facilities Planning Unit (SFPU) in the Department of Education. This is an increase of \$32,000, or 4.7 percent, above estimated 1985-86 state expenditures for this purpose.

Our analysis indicates that the amount proposed in the budget is needed to support the ongoing responsibilities of the SFPU. Accordingly, we recommend that the amount requested be approved as budgeted.

**Management Study Underway**

The *Supplemental Report of the 1985 Budget Act* directed the Office of the Legislative Analyst to expend up to \$25,000 (transferred from the Office of Local Assistance in the Department of General Services) for a study of the current activities of the School Facilities Planning Unit. This study is to include recommendations regarding the appropriate division of responsibilities between the SFPU and the Department of General Services Office of Local Assistance.

A contract providing for this study has been awarded to Price Waterhouse. The contractor has submitted a preliminary report to the Legislature and other specified state agencies which includes nine specific findings and eight recommendations. The preliminary report indicates that there is very little accountability among the five state agencies involved in processing applications for new construction, and that SFPU is expected to fulfill a diverse and possibly unmanageable set of roles. The contractor's final report is due by March 1, 1986. We will review this report and present recommendations as appropriate to the Legislature during the spring.

**3. Year-Round Schools/Alternatives to School Construction  
(Item 6100-224-001)**

*We recommend that the Legislature adopt Budget Bill language specifying that funding in this item is for the SB 81 program only. We further*

***recommend that the Legislature adopt supplemental report language directing the State Allocation Board to notify applicants for school construction funds of the total annual amount of incentive payment they would qualify for under the SB 81 program.***

In 1983, the Legislature enacted two different bills—SB 813 and SB 81—which provide incentives for districts with overcrowded schools to use existing facilities more intensively.

***Senate Bill 81 (Ch 684/83.)*** SB 81 provides additional funds to school districts that use any alternatives to new construction (including year-round schools) to reduce or eliminate their need for new school facilities. The amount of the annual payment is (a) based on the number of students accommodated in excess of the existing facilities' capacity and (b) equal to one-half of the interest payments that the state would have had to make if a new facility had been built and financed with the proceeds from state bond sales.

In the current year, the amount of the incentive payment per excess student accommodated is: \$235 for K-6 students, \$320 for grades 7-8 students, and \$365 for grades 9-12 students. In order to qualify for these funds, a school district must reduce its application for new school facilities funding by an amount that corresponds to the number of pupils housed through the alternative.

***Senate Bill 813 (Ch 498/83).*** SB 813 authorizes payments of \$25 per pupil for every pupil in a school which is operated on a year-round basis because of overcrowding. Unlike the program authorized by SB 81, the SB 813 program provides that school districts may receive incentive payments for every student attending the facility, not just the additional number of students accommodated through year-round operation. SB 813 also allows school districts to continue seeking funding for new construction to house these pupils. The payments are not available to a district that uses other means to relieve overcrowding, such as running double sessions, extended days, etc.

The budget proposes \$3,639,000 for incentive payments to local school districts under these two programs in 1986-87. (This will be the first year that funding is provided in a separate budget item.) The budget also includes language which (1) provides that a district may receive either type of incentive payment, but not both, and (2) limits the amount of incentive payments which may be claimed by districts receiving state reimbursement for the costs of operating year-round schools pursuant to a court-ordered or voluntary desegregation program.

***Rationale for Incentive Payments.*** The primary rationale for providing school districts incentive payments for alternatives to new construction is that, by encouraging school districts to use existing facilities more intensively, the state avoids the costs of having to construct new facilities. As a result, limited state resources for school facilities may be used to meet more districts' needs.

Our review indicates that the incentive program established by SB 81 is much more consistent with this rationale than is the SB 813 program, for four reasons.

***First***, the means by which school districts choose to accommodate excess students is irrelevant. Under the SB 81 program, districts may receive compensation for using any alternative to new construction. Under the SB 813 program, in contrast, school districts may receive compensation only for accommodating students through year-round schools. There is no logi-

**DEPARTMENT OF EDUCATION—Continued**

cal reason for tying funds to only one of many possible solutions to the problem which the program seeks to address.

*Second*, providing incentive payments based on the number of additional students accommodated (as does SB 81), rather than on the total number of students attending the accommodating facility (as does SB 813) is more equitable and more closely reflects the costs avoided by the state in not building a new facility. For example, under the SB 813 payment program, a school with a capacity of 4,000 which absorbs an additional 1,000 students would generate an annual incentive payment of \$125,000 ( $5,000 \times \$25$ ), or \$125 per additional student. A school with an enrollment of 10,000 which also absorbs an additional 1,000 students, however, would generate an annual incentive payment of \$275,000, or \$275 per additional student accommodated. We see no justification in providing one district \$125,000 and another \$275,000 *when each school has accommodated the same number of additional students* and, accordingly, has enabled the state to avoid the same costs of building a new facility. Under the SB 81 program, each of these hypothetical schools would have qualified for a grant of \$235,000 (assuming the 1,000 students were in grades K-6).

*Third*, the calculation of the SB 81 incentive payment amount bears some logical relationship to the costs avoided by the state. Specifically, we find that by providing districts with an amount equal to one-half of the debt service costs avoided by the state, SB 81 strikes a reasonable balance between (1) providing districts sufficient compensation to encourage their participation in the program and (2) enabling the state to use the "savings" to assist other districts with their school construction needs.

*Fourth*, it is both reasonable and appropriate that school districts receiving incentive payments for using alternatives to new construction be required to reduce their applications for state school facilities aid by the amount of students accommodated through the alternatives. Otherwise, the claimed savings to the state in avoided construction costs will not be realized.

For these reasons, we recommend that the Legislature delete the proposed Budget Bill language which provides that districts may claim payments under one, but not both, of the incentive programs. We recommend that the Legislature, instead, adopt Budget Bill language specifying that school districts shall only be permitted to receive incentive funds for alternatives to new construction under the program established by SB 81. We further recommend that the Legislature adopt supplemental report language directing the SAB to notify applicants for new construction funds of the total annual amount of incentive payments to which they would be entitled under the SB 81 program.

In sum, we recommend that the Legislature:

- Delete Budget Bill language Provision 2 in Item 6100-224-001;
- Adopt the following Budget Bill language in the same item:  
 "The funds appropriated in this item are only to provide incentive payments to eligible school districts pursuant to Section 17857 of the Education Code,"; and
- Adopt the following supplemental language:  
 "The State Allocation Board shall calculate and notify each applicant for new construction funds of the total annual amount of incentive payment it would be eligible to receive under the SB 81 (Alternatives to School Construction) program."



### C. CHILD NUTRITION

The department's Office of Child Nutrition Services administers the State Child Nutrition and Pregnant/Lactating Minor Child programs and also supervises the federally-funded National School Lunch and Breakfast programs and Child Care Food program. (This is the first year that the Pregnant/Lactating Minor Child program, established and funded in the current year by SB 1179 (Ch 1482/85), will be funded through the regular budget process.) These programs assist schools in providing nutritious meals to pupils, with emphasis on providing free or reduced-price meals to children from low-income households.

**Funding for Child Nutrition Programs.** Table 43 summarizes funding for child nutrition programs in the prior, current and budget years.

**Table 43**  
**K-12 Education**  
**Funding for Child Nutrition Programs**  
**1984-85 through 1986-87**  
**(dollars in thousands)**

	<i>Actual</i> <i>1984-85</i>	<i>Est.</i> <i>1985-86</i>	<i>Prop.</i> <i>1986-87</i>	<i>Change</i> <i>From 1985-86</i>	
				<i>Amount</i>	<i>Percent</i>
State Operations:					
General Fund.....	\$1,386	\$1,678	\$1,493	-\$185	-11.0%
Federal funds.....	5,368	6,293	6,690	397	6.3
Subtotals .....	\$6,754	\$7,971	\$8,183	\$212	2.7%
Local Assistance:					
General Fund.....	\$29,779	\$36,425	\$38,518	\$2,093	6.0%
Federal funds.....	377,624	404,440	404,366	-74	—
Subtotals .....	\$407,403	\$440,865	\$442,884	\$2,019	0.5%
Totals .....	\$414,157	\$448,836	\$451,067	\$2,231	0.5%

The table shows that child nutrition programs are supported primarily by federal funds. The budget proposes an increase of \$212,000—or 2.7 percent—for state operations, and an increase of \$2,019,000—or 0.5 percent—for local assistance. These changes are explained in the following analysis of the state and federal child nutrition programs.

#### 1. Nutrition Education and Training Projects (NETP) (Item 6100-021-001)

*We recommend approval.*

The Nutrition Education and Training Projects program, authorized by Chapter 1010, Statutes of 1976, funds mini-grants to local educational agencies and child care agencies to implement nutrition education programs in the classroom. The program also provides nutrition education for food service personnel.

The budget proposes \$580,000 from the General Fund for this program in 1986-87. This amount would maintain the level of funding provided in the current year.

Our analysis indicates that this program is meeting its intended purpose and, accordingly, we recommend that the amount requested be approved as budgeted.

**DEPARTMENT OF EDUCATION—Continued****2. State Child Nutrition and Pregnant/Lactating Minor Child Program  
(Item 6100-201-001)**

*We withhold recommendation on \$38,518,000 requested from the General Fund for the State Child Nutrition and Pregnant/Lactating Minor Child programs, pending receipt of additional information on the projected number of meals and nutrition supplements to be served.*

The State Child Nutrition program provides a basic subsidy from the General Fund for each meal served by public schools, private not-for-profit schools, and child care centers to pupils from low-income households eligible for free and "reduced-price" meals. The Pregnant/Lactating Minor Child program provides a fixed-rate reimbursement to participating school food authorities for daily nutrition supplements served to pregnant or lactating students. The budget proposes a total of \$38.5 million from the General Fund to fund these two programs.

**Nutrition.** The budget requests \$38.2 million for the State Child Nutrition subsidy in 1986-87. This represents an increase of 6 percent over the current-year level. This amount (1) assumes that there will be approximately 8.5 million more subsidized meals served in 1986-87 than were served in 1985-86 (a 3 percent increase), and (2) funds a 3.1 percent statutory COLA, which is based on the "food away from home" component of the Consumer Price Index for San Francisco and Los Angeles.

**Pregnant Minors.** The budget request \$285,000 to reimburse participating schools for providing nutrition supplements to pregnant and lactating minors—the same amount as provided in the current year.

**Better Data Needed.** The Department of Education indicates that additional information on the number of meals and nutrition supplements served during the current year will be available in February 1986. This information will provide a better basis for estimating the number of eligible meals and nutrition supplements that will be served in 1986-87. We will review this information and report during the budget hearings on its implications for these two nutrition programs in 1986-87.

**3. Federal Child Nutrition Programs (Item 6100-201-890)**

Federal funds are used to provide nutrition subsidies to participating schools and eligible child care institutions under the following four programs: (1) National School Lunch, (2) School Breakfast, (3) Special Milk and (4) Child Care Food.

The budget proposes an appropriation of \$6,690,000 from the Federal Trust Fund for state operations, an increase of \$397,000 or 6.3 percent above the current-year level. The budget also proposes an appropriation of \$404 million from the Federal Trust Fund for local assistance in 1986-87. This amount maintains the level of funding provided in the current year.

**New EDP System Warranted**

*We recommend that the Legislature (1) appropriate \$350,000 from the General Fund for the redesign and implementation of the program's electronic data processing (EDP) system and (2) adopt Budget Bill language specifying that these funds (a) are not to be made available until the Office of Information Technology (OIT) approves the feasibility study report and (b) are to be repaid over a specified period of time, with interest, from the savings attributable to the new system. (Augment Item 6100-201-001 by \$350,000.)*

Under the state and federal child nutrition programs, the department processes an estimated 1,800 local agency reimbursement claims each month, at an annual cost of approximately \$300,000. The EDP system used to process these claims (in place since 1977) has several limitations which have resulted in inefficiencies, inaccuracies and failures to make payments within required federal time limits.

Information from both the SDE and the Department of Finance supports the need for a new EDP system. A feasibility study conducted by SDE during the current year indicates that a new system would cost approximately \$350,000 and would generate annual savings of approximately \$50,000. At the time this analysis was prepared, the feasibility study had not yet been submitted to the OIT for review and approval. The Department of Finance has directed the SDE to finance the design and implementation of such a system with federal funds.

We agree that the current EDP system needs to be replaced. Our review indicates, however, that the SDE does not have available sufficient state or federal funds in the state operations budget to support the \$350,000 cost of updating the system. Accordingly, we believe that the Department of Finance's suggestion that SDE fund the conversion from existing resources is unrealistic.

We recommend that the Legislature provide SDE with a \$350,000 General Fund *loan* to finance the design and implementation of the new system. Our recommendation is based on two considerations.

*First*, both the SDE and the Department of Finance assert that the EDP conversion project is justified by the savings that it will generate. It is therefore appropriate that these savings be used to amortize the cost of the conversion.

*Second*, because the state operations budget for the child nutrition programs is jointly funded from state and federal sources, and because both programs will share in the benefits from the conversion, it is appropriate that federal government bear its fair share of the conversion costs. This can only occur if the conversion is financed with a loan and part of the federally-funded administrative cost allowance is used to amortize the loan. (Unlike the case with administrative costs funded from the General Fund, the Legislature cannot "recapture" savings in federally-funded administrative costs simply by reducing the amount budgeted for this purpose.)

For these reasons, we recommend that the Legislature appropriate \$350,000 from the General Fund as a *loan* to finance the redesign of the EDP system, once the feasibility study report has been approved by the OIT. This can be accomplished by adopting the following Budget Bill language:

"The \$350,000 appropriated in this item represent a General Fund loan for the redesign and implementation of an EDP system for the federal nutrition programs. These funds, which shall be available only if the Office of Information Technology approves the feasibility study report, are to be repaid from state and federal funds over a period of time not to exceed 15 years, at an interest rate equal to the rate earned by the Pooled Money Investment Fund on June 30, 1986."

## DEPARTMENT OF EDUCATION—Continued

## III. 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 Child Development, Adult Education, and the Office of Food Distribution.

## A. CHILD DEVELOPMENT PROGRAMS

Table 44 summarizes funding in the prior, current, and budget years for child development programs, which include state preschool and child care services. The budget proposes total expenditures of \$327.5 million for state operations and local assistance on behalf of child development programs during 1986-87—an increase of \$7.8 million, or 2.5 percent, over estimated expenditures during the current year.

**Table 44**  
**K-12 Education**  
**Funding for Child Development Programs**  
**1984-85 through 1986-87**  
**(dollars in thousands)**

	Actual 1984-85	Est. 1985-86	Prop. 1986-87	Change From 1985-86	
				Amount	Percent
State Operations .....	\$3,536	\$4,748	\$4,907	\$159	3.3%
Local Assistance:					
Preschool .....	\$34,104	\$35,462	\$36,171	\$709	2.0%
Child Care .....	247,319	279,400	286,409	7,009	2.5
Subtotals, local assistance .....	<u>\$281,423</u>	<u>\$314,862</u>	<u>\$322,580</u>	<u>\$7,718</u>	<u>2.5%</u>
Totals .....	<u>\$284,959</u>	<u>\$319,610</u>	<u>\$327,487</u>	<u>\$7,877</u>	<u>2.5%</u>

**Workload Standards Needed for Child Development Division**

*We withhold recommendation on \$4,476,000 requested from the General Fund to support the state operations budget of the Child Development Division, pending completion of legislatively-required workload standards.*

The Governor's budget proposes \$4,476,000 from the General Fund (in Item 6100-001-001) for state operations expenditures in support of the Child Development Division (CDD) within SDE. This is an increase of \$159,000 or 3.3 percent, over the current-year funding level.

Estimates of expenditures for 1985-86 reflects a budget revision that increased support for the division by nine positions and \$450,000. Of this amount, \$280,000 is related to one-time contractual services expenditures. In addition to the new positions added in the CDD in the current year, three positions were added to the Local Assistance Bureau and one position was added to the Fiscal Services Division at a cost of \$43,000. These positions are all related to increased child development contract workload.

In 1986-87, the budget proposes to continue the nine positions established in the current year, at a full-year cost of \$542,000. (The budget also proposes continuation of the four positions added to other divisions, at a cost of \$90,000 in 1986-87.) In addition, the budget requests \$237,000 for operating expenses associated with these positions, bringing the total cost

of these positions to \$743,000 in the budget year. The positions would be used to handle a projected increase in workload associated with expansion of the Alternative Payment program, the School Age Parenting and Infant Development (SAPID) program, and the newly-established extended day care ("latchkey") program.

**Workload Standards Needed.** Chapter 1364, Statutes of 1985, requires the SDE, the Department of Finance, and the Office of the Legislative Analyst to develop workload standards for the auditing, accounting, and legal analysis of contracts in the Child Development Division. These standards are to be submitted to the Legislature by March 31, 1986. The law further states that the development of these standards shall be used as the basis on which the CDD budget for 1986-87 will be approved.

Workload standards for the CDD have not yet been developed. In preparing the budget, the Department of Finance used the *existing* workload standards and estimates of increased workload to determine the number of additional positions needed by CDD. Neither the CDD nor our office participated in this decision. In fact, at the time this analysis was written, the SDE was in the process of developing workload measures pursuant to Ch 1364 for review by the Department of Finance and our office. The SDE expects that the workload standards will be completed and submitted to the Legislature by March 31, in accordance with state law.

In the absence of these new workload standards, we are unable to make a recommendation on the budget proposal. Consequently, we withhold recommendation on the state operations portion of the child development budget, pending development of new workload standards. (In Item 6100-001-001, we withhold recommendation on the positions added to the other divisions related to child development contract workload, pending development of workload standards.)

### **1. Preschool Programs (Item 6100-196-001 (a))**

#### ***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 189 school districts, private-nonprofit agencies and institutions of higher education. Together, they enroll approximately 19,260 children.

The State Preschool program also funds the preschool scholarship incentive program (Ch 795/75), which provides scholarships for both preschool teachers and aides in order to assist them in continuing their professional development and obtain full credentials.

Table 45 shows expenditures for the State Preschool program in the prior, current, and budget years.

The budget proposes expenditures of \$36.6 million from the General Fund for State Preschool programs in 1986-87. This amount includes \$431,000 for state operations and \$36,171,000 for local assistance. This is an increase of 2 percent over the current-year funding level.

Our analysis indicates that this program is serving its intended purpose and, accordingly, we recommend that the amount requested be approved as budgeted.

## DEPARTMENT OF EDUCATION—Continued

**Table 45**  
**K-12 Education**  
**State Preschool General Fund Expenditures**  
**1984-85 through 1986-87**  
**(dollars in thousands)**

	<i>Actual</i> 1984-85	<i>Est.</i> 1985-86	<i>Prop.</i> 1986-87	<i>Change From</i> 1985-86	
				<i>Amount</i>	<i>Percent</i>
State Operations .....	\$371	\$411	\$431	\$20	4.9%
Local Assistance .....	34,104	35,462	36,171	709	2.0
Scholarship Incentive program .....	—	(273)	(273)	—	—
Totals .....	\$34,475	\$35,873	\$36,602	\$729	2.0%

**2. Child Care (Items 6100-196-001 (b) and 6100-196-890)**

The Child Care 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 Child Development Division (CDD) within SDE 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 46 summarizes expenditures and funding for child care services in the prior, current, and budget years.

For 1986-87, the budget proposes a total funding level of \$286,409,000 for child care local assistance—an increase of \$7,009,000, or 2.5 percent, over estimated current-year expenditures. It also requests \$4,476,000 for state operations—an increase of \$139,000, or 3.2 percent. The changes primarily reflect:

- An increase of \$4.9 million for a 2 percent cost-of-living adjustment in payments to child care agencies;
- An increase of \$7.8 million to provide annualized funding for extended day care programs;
- A decrease of \$5.8 million in various programs which will terminate in the current year.

In addition, the budget proposes (1) a net reduction in General Fund expenditures of \$18.8 million (6.8 percent) and (2) an increase in reimbursements of \$31.0 million anticipated from the Department of Social Services for child care services provided to GAIN participants.

**Participation.** Table 47 summarizes the scope of SDE-administered child care services in each of the nine major types of programs which are funded on the basis of daily enrollment. During the current fiscal year, nearly 500 different public and private agencies will provide subsidized child care services for an average daily enrollment of approximately 52,000 children from low-income families. These agencies will receive reimbursements for each day an eligible child is enrolled in a child care program. The maximum amount of reimbursement to be provided to each agency is established by a contract between the agency and the SDE.

**Table 46**  
**K-12 Education**  
**Child Care Services**  
**Expenditures and Funding**  
**1984-85 through 1986-87**  
**(dollars in thousands)**

	<i>Actual</i> 1984-85	<i>Est.</i> 1985-86	<i>Prop.</i> 1986-87	<i>Change From</i> <i>1985-86</i>	
				<i>Amount</i>	<i>Percent</i>
Local Assistance:					
General Child Care .....	\$198,211	\$205,152	\$208,956	\$3,804	1.9%
Campus children's centers .....	5,750	6,144	6,267	123	2.0
High school age parenting .....	4,782	6,602	6,734	132	2.0
Migrant day care .....	8,156	8,690	8,821	131	1.5
Special allowance for rent .....	404	420	428	8	1.9
Special allowance for handicapped .....	677	704	718	14	2.0
Alternative Payment Program .....	18,254	25,769	26,354	585	2.3
Resource and referral .....	5,302	7,262	7,407	145	2.0
Campus child care tax bailout .....	3,833	3,986	4,066	80	2.0
Protective services .....	970	1,009	1,029	20	2.0
Child Care Employment Act .....	980	4,509	—	-4,509	-100.0
Child care capital outlay (carryover) ....	—	176	—	-176	-100.0
California Child Care Initiative (Ch 1299/85) .....	—	100	—	-100	-100.0
Before/After School Program Incentives (Ch 1440/85) .....	—	1,000	—	-1,000	-100.0
Extended Day Care (Ch 1026/85) .....	—	7,877	15,629	7,752	98.4
Subtotals, Local Assistance .....	\$247,319	\$279,400	\$286,409	\$7,009	2.5%
State Operations .....	3,165	4,337	4,476	139	3.2
Totals .....	\$250,484	\$283,737	\$290,885	\$7,148	2.5%
Funding Sources					
General Fund .....	\$247,493	\$275,706	\$256,914	-\$18,792	-6.8%
Federal funds .....	1,952	3,140	2,140	-1,000	-31.8
Special Account for Capital Outlay .....	48	193	0	-193	-100.0
Reimbursements .....	991	4,698	31,831	27,133	N/A <sup>a</sup>

<sup>a</sup> Exceeds 100 percent.

**Table 47**  
**K-12 Education**  
**Child Development Services**  
**Participation<sup>a</sup>**  
**1985-86**

<i>Program:</i>	<i>Number of</i> <i>Agencies</i>	<i>Average Days</i> <i>of Service</i>	<i>Average Daily</i> <i>Enrollment</i>
Center Program—Public .....	110	246	28,400
Center Program—Private .....	178	250	11,106
Center Program—Title 22 .....	49	250	1,796
Family child care homes .....	23	254	1,137
Campus child care .....	52	185	2,059
State migrant .....	29	177	2,168
Federal migrant .....	3	141	280
Alternative payment <sup>b</sup> .....	42	251	4,882
Handicapped children .....	7	232	166
Totals .....	493	—	51,994

<sup>a</sup> Does not include estimated participation in extended day care programs.

<sup>b</sup> Does not include expansion of Alternative Payment Programs provided through legislation by Chapters 1299, and 1364, 1985 Statutes.

**DEPARTMENT OF EDUCATION—Continued**

This table does not include either (1) estimated participation in the expansion of Alternative Payment programs through Chapters 1299 and 1364, Statutes of 1985 or (2) newly-established extended day care programs. At the time this analysis was written, final contracts for these programs had not been executed; therefore, the numbers of children to be served by the programs were not known. SDE should provide an update on these programs at the time of budget hearings.

Additional child care services will be provided by (1) county welfare departments (which are reimbursed on an hourly basis), (2) school districts participating in the School Age Parenting and Infant Development (SAPID) program, (3) respite child care programs (providing short term, protective child care services), and (4) child care programs which contract with local private industry councils to provide services to participants in federal job training programs.

**Implementation of GAIN Could Have a Significant Impact on Child Care Programs**

*We withhold recommendation on \$286,409,000 requested from state and federal funds for child care local assistance, pending receipt of information on (1) the methodology used to estimate reimbursements expected from the Department of Social Services for child care services provided to GAIN participants and (2) the procedure by which the State Department of Education will be "held harmless" if proposed reimbursements do not materialize.*

Chapter 1025, Statutes of 1985, created the Greater Avenues for Independence (GAIN) program. This program is designed to provide employment and training services to Aid to Families with Dependent Children (AFDC) recipients to help them become financially self-sufficient. Specifically, Chapter 1025 requires the Department of Social Services (DSS) and SDE to enter into an interagency agreement for the purpose of obtaining federal matching funds for child care services provided to GAIN participants. (The act requires AFDC applicants and recipients who have no children under the age of six and who do not meet specified exemption criteria, to participate in the GAIN program.) Chapter 1025 also provides that the Department of Education shall be "held harmless" from any deficiency that may result from this transfer.

**The Budget Proposal.** In anticipation of the federal match, the Governor's Budget proposes a reduction in General Fund expenditures for child care services of \$31 million, assuming that this amount will be fully offset by reimbursements from federal funds. These reimbursements are expected from the DSS for child care services provided to GAIN participants. If the reimbursements materialize, there would be no net reduction in child care expenditures.

This proposal is based on the Department of Finance's estimate that the SDE will spend \$62 million during 1986-87 providing day care to AFDC recipients. This amount is based on the SDE's estimate that 22 percent of its expenditures for day care are on behalf of AFDC families. Using the standard 50 percent federal sharing ratio in the AFDC program, the Department of Finance estimates that the DSS, therefore, will be allowed to use \$31 million in federal funds to reimburse the SDE for the federal share of these costs.

**Concerns About Proposal.** We have the following three concerns



about the methodology used to estimate the amount of reimbursement anticipated from DSS:

- ***The budget base from which the estimate was derived is too high.*** In calculating the amount of funding attributable to child care services provided to children of GAIN participants, the Department of Finance used as a base the proposed 1986-87 budget amounts for the general child care, campus child care, alternative payment, extended day care and preschool programs. Because the state preschool program serves children who are under six years of age and the majority of GAIN participants are expected to be individuals with children over the age of six, some portion (if not all) of the expenditures for this program should be excluded from the base. Because data which specifically identifies services provided to AFDC recipients' children under the age of 6 is not available, we are unable to determine which portion of the amounts for the other child care programs should also be excluded from the calculation.
- ***The estimate of AFDC recipients currently receiving subsidized child care services is out-of-date.*** The Governor's Budget assumes that 22 percent of child care services recipients are in AFDC families. This estimate was taken from the "1982-83 Triennial Report on Publicly Subsidized Child Care Services" published by the Department of Education. According to the Department of Education this estimate is out-of-date. The department is in the process of gathering data for the 1985-86 Triennial Report, which will be published in the fall 1986. We believe that data collected for the revised report should be used to estimate the number of GAIN participants that will receive child care.
- ***The estimate of participation in the GAIN program is too high.*** The budget assumes that all AFDC recipients who currently are receiving child care services will participate in an approved employment or training program, thereby making themselves eligible for federal reimbursement. This is a faulty assumption, for two reasons. First, not all AFDC recipients are mandatory GAIN participants and the extent of voluntary participation cannot be estimated at this time. Second, the federal government will only provide matching funds for day care services provided to participants in *approved employment* programs. Eligibility for child care services from SDE, however, is *not* contingent on enrollment in employment programs. It is possible, therefore, that a substantial portion of state-subsidized child care services provided to AFDC recipients will not qualify for federal matching funds.

***"Hold Harmless" Provision.*** By reducing the proposed General Fund appropriation by \$31 million in anticipation of federal reimbursements, the budget creates the potential for a major General Fund deficiency in the funding of child care programs. To the extent that SDE receives less than \$31 million in reimbursements—and we believe there is a good chance this will occur—there will be a deficiency in the child care budget. Chapter 1025, however, requires that SDE shall be held harmless from any deficiency.

In light of the above, we withhold recommendation on the child care local assistance request pending receipt of (1) a more reliable estimate of the caseload that will be eligible for federal reimbursement, and (2) a proposal for holding SDE "harmless" in the event federal reimbursements do not materialize.

**DEPARTMENT OF EDUCATION—Continued****Accounting Procedures Are Needed to Claim Federal Reimbursement**

*We recommend that the Legislature direct the State Department of Education to report on its progress in developing accounting procedures necessary to claim federal reimbursement for GAIN participants.*

In order to claim federal reimbursement for a portion of SDE's child care costs, the DSS will have to provide the federal government with documentary evidence that all of the costs for which reimbursement is claimed are eligible for federal reimbursement. This will require a two-step verification process.

*First*, according to the federal government's current accounting standards, there must be an "audit trail" for each program participant that can be used to verify (1) the participant's eligibility, (2) the appropriateness, under federal rules, of day care provided on behalf of the participant, and (3) the reasonableness of the costs incurred. The SDE advises us that it does not have a system in place to track the last two criteria.

*Second*, under federal regulations, the cost of child care services can be reimbursed only for the hours during which the parent is participating in an approved employment program. Under existing SDE regulations, a GAIN participant also could receive child care services while studying or working part-time. The cost of these services, however, is *not* reimbursable under federal regulations. Therefore, the SDE will have to establish a system that can distinguish between services provided to GAIN participants qualifying for reimbursement and those that do not qualify.

Such a verification process must be in place by July 1, 1986 if the state is to capture the maximum amount of federal funds potentially available for child care services provided to GAIN participants. It is our understanding that DSS and SDE are exploring the options available for satisfying the federal requirements. Until an acceptable verification process is in place, however, the state will not be able to qualify for federal reimbursement of these costs.

We recommend that the Legislature direct the SDE to report during budget hearings on its progress in developing these procedures.

**Technical Errors Should Be Corrected**

*We recommend that the Legislature transfer \$250,000 proposed for reimbursement rate increases in the Alternative Payment program to general child development programs, in order to accurately reflect the need for rate increases. (Reduce Item 6100-196-001 (b) (7) by \$250,000 and augment Item 6100-196-001 (b) (1) by \$250,000.)*

Chapter 1604, Statutes of 1984, provided funding to increase state support for child care and development services in 1984-85. Specifically, the bill provided:

- \$3 million to increase reimbursement rates for "underfunded" child care and development programs, including preschools;
- \$1 million for respite child care for children in need of protective services; and
- \$400,000 to expand child care services for children with exceptional needs.

As we pointed out in last year's *Analysis*, the implementation of this legislation was delayed because of delays in (1) establishing new reimbursement rates and (2) soliciting and reviewing applications from new

child care services providers. Consequently, the Legislature reappropriated in the 1985 Budget Act approximately \$2.2 million of the amounts provided in this measure, for use during 1985-86.

When the initial appropriation was made in 1984, the Department of Finance requested that SDE estimate how the funding provided for reimbursement rate increases should be allocated among the various child development program types. Based on this information, the Department of Finance scheduled the funding for budget and expenditure purposes.

Subsequently, the SDE determined the actual needs for reimbursement rate increases. This information indicates that the amount needed to fully fund rate increases in Alternative Payment programs was overestimated by \$250,000 and the amount needed to fund increases in general child development programs' rates was underestimated by the same amount. Consequently, the SDE asked the Department of Finance to approve a budget revision in the current year so that it could transfer the excess to cover the shortages in other programs. The Department of Finance denied this request, and the budget for 1986-87 continues to show the excess \$250,000 in the Alternative Payment program.

Our review indicates that the revision requested by SDE is reasonable and necessary in order to accurately reflect actual funding needs. Furthermore, we note that if the funding remains in the Alternative Payment program it cannot be expended. This is because the purpose for which the funds were appropriated (rate increases) has been achieved. Accordingly, we recommend that the Legislature amend the Budget Bill to transfer \$250,000 from the Alternative Payment program to the general child development program.

#### **Budget Guidelines Not Yet Developed**

In last year's *Analysis*, we noted that some private child care centers had allocated an unusually large share of program funds to administrative costs, thereby leaving a relatively small amount for teaching and the direct care of children. We also pointed out that Program Quality Reviews conducted by CDD indicated that a relatively low level of expenditures for direct services to children frequently is associated with lower-than-average levels of program quality.

Based on these findings, the Legislature adopted language in the *Supplemental Report of the 1985 Budget Act* requiring the SDE to develop guidelines for allocating state funds among public and private child care providers. These guidelines were supposed to include requirements specifying minimum expenditures for direct services to children.

The required guidelines have not yet been developed. The department has contracted with MPR Associates to develop the guidelines, at a cost of \$50,000. Because the guidelines will not be available until June 1986, it will not be possible to implement them during 1985-86.

#### **Implementation of Extended Day Care Programs on Schedule**

Chapter 1026, Statutes of 1985, appropriated \$8,175,000 in 1985-86 for the implementation of extended day care programs which provide child care services to school-age children before and after school hours. In accordance with the provisions contained in that bill, the Governor's Budget proposes \$16 million for the full-year cost of continuing these programs in 1986-87.

The enabling legislation required the SDE to make applications for Chapter 1026 funds available to interested providers by November 1, 1985,

**DEPARTMENT OF EDUCATION—Continued**

and set January 1, 1986 as the deadline for receipt of completed applications. These deadlines have been met. The bill also requires that, by February 15, 1986, the SDE shall select and notify all applicants with which the state will contract. At the time this analysis was written, the SDE was proceeding on schedule and expected to notify all approved applicants by February 15, 1986.

**B. ADULT EDUCATION PROGRAMS IN SCHOOL DISTRICTS**

The Office of Adult, Alternative, and Continuation Education Services is responsible for managing (1) state- and federally-funded school district programs for adults and (2) general education development (GED) testing. School district adult education ADA is estimated to be 168,686 in 1985-86. In addition to these ADA, the community colleges teach approximately 60,000 ADA in adult education.

Table 48 shows the state operations and local assistance funding for adult education in the prior, current, and budget years.

**Table 48**  
**K-12 Education**  
**Adult Education Funding**  
**1984-85 through 1986-87**  
**(dollars in thousands)**

	<i>Actual</i> <i>1984-85</i>	<i>Est.</i> <i>1985-86</i>	<i>Prop.</i> <i>1986-87</i>	<i>Change From</i> <i>1985-86</i>	
				<i>Amount</i>	<i>Percent</i>
State Operations:					
General Fund .....	\$247	\$165	\$131	-\$34	-20.6%
Federal funds .....	806	873	928	55	6.3
Special Deposit Fund .....	159	159	169	10	6.3
Subtotals .....	\$1,212	\$1,197	\$1,228	\$31	2.6%
Local Assistance:					
General Fund .....	\$181,254	\$199,447	\$216,334	\$16,887	8.5%
Federal funds .....	7,422	9,288	9,288	—	—
Subtotals .....	\$188,676	\$208,735	\$225,622	\$16,887	8.1%
Totals .....	\$189,888	\$209,932	\$226,850	\$16,918	8.1%
Personnel Years .....	18	14.7	16.5	2	12.2%

**1. State Adult Education Programs (Item 6100-156-001)**

The budget proposes a General Fund appropriation of \$216 million for adult education local assistance to school districts (including adults in correctional facilities) in 1986-87. This represents an increase of \$17 million, or 8.5 percent, over estimated expenditures in the current year. The proposed increase for 1986-87 includes (1) \$4.0 million to fund a 2.0 percent increase in enrollment, in lieu of the 2.5 percent increase specified in current law; (2) \$12.1 million to fund a statutory 6 percent cost-of-living adjustment; and (3) \$700,000 to provide equalization aid pursuant to SB 813 (Ch 498/83).

The \$216 million proposed for adult education includes \$1 million for the purpose of providing additional adult education courses in the area of English as a Second Language (ESL). Assembly Bill 363 (Ch 1441/85) appropriated \$500,000 for this purpose in the current year.

The budget also proposes \$131,000 from the General Fund for state operations associated with the adult education program—a decrease of 21 percent compared to estimated current-year expenditures from this source of funds. Because of increased federal support, however, total funding for state operations would increase by 2.6 percent under the budget proposal.

#### **Funding of Enrollment Growth in Adult Education Should Be Tied to Need**

*We recommend that the Legislature (1) reduce the amount proposed for enrollment growth in adult education programs by \$800,000, so that the amount more accurately reflects adult population growth, and (2) adopt Budget Bill language directing the Department of Education to allocate these funds on the basis of need. (Reduce Item 6100-156-001 by \$800,000.)*

School districts receive funds for state-mandated adult education programs based on the average daily attendance (ADA) of adults in these programs. Chapter 100, Statutes of 1981, limited the amount of adult ADA for which school districts can receive state funds to the level funded in 1980-81, adjusted annually by 2.5 percent.

The annual increase in funding entitlements is intended to allow school districts to expand enrollment levels in adult education programs, while ensuring that statewide entitlements to adult education funding will not, in any year, exceed the amount of funding made available for adult education by the Legislature. Each school district receives the same increase in its allowable enrollment level, regardless of how the need for adult education programs is changing within the district.

As noted above, the budget proposes funding for a 2.0 percent increase in school districts' adult ADA levels, instead of for the 2.5 percent increase specified in current law. The budget provides that each district will receive an equal percentage adjustment to its allowable ADA level.

There are two problems with the budget proposal.

*The amount budgeted for enrollment growth is arbitrary.* We can find no analytical reason why adult enrollment levels should increase by 2.0 percent, nor, for that matter, by 2.5 percent as current law provides. Both figures are arbitrary, and bear no relationship to those factors that influence the growth in demand for adult education.

Our analysis indicates that on a statewide basis, the best indicator of the growth in demand for adult education is the rate of growth in the state's adult population. This, in fact, is the indicator used by the state to determine how much funding for growth should go to community colleges.

We acknowledge that growth in the state's adult population is not perfectly correlated with local needs for adult education. Consequently, in districts where unemployment rates or levels of foreign immigration are increasing, the demand for adult education may exceed the rate of adult population growth. In other districts, the rate of adult population growth may overestimate need. On a statewide basis, however, it is the best indicator available. Accordingly, we recommend that the total amount of funds budgeted for growth be determined based on the rate of growth in the adult population statewide during the prior year, as calculated by the Department of Finance (DOF). The DOF's most recent estimate of the rate for 1985 is 1.6 percent. We therefore recommend that the Legislature provide sufficient funds to support a 1.6 percent increase in adult education ADA during 1986-87, for a General Fund savings of approximately \$800,000.

*Distribution of Growth Funds.* Our review also indicates that it is

**DEPARTMENT OF EDUCATION—Continued**

not appropriate to allow the same percentage increase in state-supported adult ADA for all school districts. In some school districts, the demand for adult education programs may increase by more than 1.6 percent, while in other school districts the demand for adult education may increase by less. This being the case, adult education growth funds could be used more effectively if the funds were targeted to those school districts where the demand for these funds is greatest.

Data supplied by the State Department of Education indicates, in some areas of the state, the need for additional adult education funds is relatively large. For instance, high levels of foreign immigration in some districts have caused large increases in the demand for adult education, particularly English as a Second Language (ESL). Although the budget requests a \$1 million augmentation for districts needing to provide additional ESL instruction, this amount will not be sufficient to fully fund the demand. Accordingly, we expect that there will continue to be a large, unmet need for ESL if growth funds are allocated on a flat percentage basis.

Similarly, the demand for instruction in basic academic skills and vocational education is likely to increase in some districts as the Greater Avenues for Independence (GAIN) program established by Ch 1025/85 is implemented. Here again, if growth funds are allocated on a flat percentage basis, some districts may not be able to accommodate the demand for services under the GAIN program.

Our analysis indicates that whatever amount is provided for growth in Adult Education (ADA), these funds could be used more effectively if proportionately more of them were allocated to districts with high-priority needs. We therefore recommend that the Legislature direct the Superintendent of Public Instruction to develop specific criteria for measuring each district's need for additional adult education funds, and to apportion the available supply of growth funds on the basis of these needs.

**Recommendation.** In sum, we recommend that the Legislature (1) appropriate funds for Adult Education enrollment growth based on the growth in the adult population during the prior-year and (2) adopt Budget Bill language requiring that these funds be allocated among districts based on local indicators of need developed by the Superintendent of Public Instruction. In order to implement these recommendations, the Legislature should reduce Item 6100-156-001 by \$800,000, and adopt the following Budget Bill language in Item 6100-156-001 in lieu of paragraph 2:

- "2. (a) \$3,131,500 of the funds appropriated by this item shall be used to fund high-priority needs in adult education. The Superintendent of Public Instruction shall develop criteria to identify districts with high-priority needs, and shall allocate these funds in accordance with such criteria. The Superintendent may use these funds to increase adult education block entitlements.
- (b) Notwithstanding Section 52616 of the Education Code, the average daily attendance used in computing each district's 1986-87 block entitlement shall be the lesser of the district's 1985-86 adult block entitlement average daily attendance computed pursuant to paragraph (1) of subdivision (b) of Section 52616 of the Education Code, excluding average daily attendance in regional occupational centers and programs, as adjusted by the Superintendent of Public Instruction pursuant to part (a) of this provision, or the district's

reported 1986-87 annual adult average daily attendance, excluding average daily attendance in regional occupational centers and programs."

## **2. Federal Adult Basic Education Act (Item 6100-156-890)**

### ***We recommend approval.***

The budget requests \$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 \$928,000 in federal funds for state operations, an increase of 6.3 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 we therefore recommend that the amount requested be approved as budgeted.

## **3. Adults in Correctional Facilities (Item 6100-158-001)**

### ***We recommend approval.***

The budget proposes \$1.9 million from the General Fund for education of adults in correctional facilities, an increase of \$159,000 over the estimated level of funding in the current year. The increase includes funds to provide a 6 percent cost-of-living adjustment and a 2 percent increase for enrollment growth. Our review indicates that the proposed amount is reasonable and, accordingly, we recommend that the amount requested be approved as budgeted.

## **C. OFFICE OF FOOD DISTRIBUTION (Items 6100-001-687 and 6100-203-890)**

### ***We recommend approval.***

The Office of Food Distribution (OFD) within the State Department of Education administers the Surplus Food program and the Temporary Emergency Food Assistance program (TEFAP).

- Under the Surplus Food program, the OFD receives surplus food commodities donated from the United States Department of Agriculture (USDA) and distributes them to eligible agencies throughout the state. The bulk of the food received is distributed to schools, and the rest is delivered to child care centers and food programs for the elderly.
- Under the Temporary Emergency Food Assistance program, the OFD distributes agricultural commodities to food banks, charitable institutions and other nonprofit agencies.

The Office of Food Distribution is entirely self-supporting. Local agencies that receive commodities under the Surplus Food program are assessed processing and handling charges that are sufficient to cover 100 percent of the office's costs. For delivering food under the TEFAP program, the OFD receives federal funds to reimburse state and local delivery costs.

Table 49 shows the value of food distributed, as well as the OFD's expenditures and revenues, from 1984-85 through 1986-87.

As shown in Table 49, during the budget year the OFD will distribute an estimated \$90 million in donated food commodities under the Surplus Food program and approximately \$92 million in food commodities under the Emergency Food program.

**DEPARTMENT OF EDUCATION—Continued**

**Table 49**  
**Department of Education**  
**Office of Food Distribution**  
**Distribution Activity and Administrative Costs**  
**1984-85 through 1986-87**  
**(dollars in thousands)**

	<i>Actual</i> 1984-85	<i>Est.</i> 1985-86	<i>Prop.</i> 1986-87	<i>Change</i> <i>1985-86 to 1986-87</i>	
				<i>Amount</i>	<i>Percent</i>
Commodities Distributed:					
Surplus Food Program					
Total value of food distributed <sup>a</sup> .....	\$85,603	\$88,627	\$90,000	\$1,373	1.5%
(Number of agencies participating) .....	(2,768)	(2,800)	(2,800)	(—)	(—)
Temporary Emergency Food Assistance Program					
Total value of food distributed .....	97,607	91,862	91,862	—	—
(Number of agencies participating) .....	(52)	(52)	(52)	(—)	(—)
Administrative Costs:					
State <sup>b</sup> .....	\$12,503	\$13,682	\$13,434	—\$248	—1.8%
Local <sup>c</sup> .....	3,508	4,487	3,800	—687	—15.3

<sup>a</sup> Includes "bonus" food commodities.<sup>b</sup> The state is reimbursed for these costs through fees charged to local agencies.<sup>c</sup> Includes the federal funds provided for the purpose of reimbursing local agencies' claims for their costs of delivering food received under the TEFAP program.

**Table 50 <sup>a</sup>**  
**Department of Education**  
**Office of Food Distribution**  
**Expenditures and Funding**  
**1984-85 through 1986-87**  
**(dollars in thousands)**

	<i>Actual</i> 1984-85	<i>Est.</i> 1985-86	<i>Prop.</i> 1986-87	<i>Change</i> <i>From 1985-86</i>	
				<i>Amount</i>	<i>Percent</i>
Administrative Costs:					
State .....	\$13,641	\$14,882	\$14,634	—\$248	—1.7%
Local <sup>b</sup> .....	3,508	4,486	3,801	—685	—15.3
Totals .....	\$17,149	\$19,368	\$18,435	—\$933	—4.8%
Funding Sources:					
Donated Food Revolving Fund .....	\$12,503	\$13,682	\$13,434	—\$248	—1.8%
Surplus Property					
Revolving Fund .....	1	—	—	—	—
Federal Trust Fund .....	4,645	5,687	5,000	—687	—12.1
Personnel-years .....	99.8	110.9	106.4	—4.5	—4.1%

<sup>a</sup> Details may not add to totals due to rounding.<sup>b</sup> Includes the federal funds provided for the purpose of reimbursing local agencies' claims for their costs of delivering food received under the TEFAP program.



Table 50 shows the Office of Food Distribution's expenditures and funding, as indicated in the Governor's Budget, for the prior, current, and budget years. The levels of state expenditures reported in the budget is higher than the amounts shown in Table 49. This is because state expenditures have been purposely overbudgeted in order to reflect the maximum expenditure level which the OFD could possibly achieve during a given fiscal year. The amounts indicated in Table 49 reflect a more realistic estimate of expenditures.

As shown in Table 50, the budget proposes aggregate expenditures of \$18.4 million for the OFD in 1986-87—a decrease of \$933,000, or 4.8 percent, below estimated 1985-86 expenditures. This decrease is due primarily to savings that will be realized as a result of streamlining the OFD's administrative operations (discussed in greater detail below). To administer the Emergency Food program in 1986-87, the budget includes \$5 million in federal funds—\$1.2 million for state operations and \$3.8 million for local assistance.

Our analysis indicates that this program is meeting its intended purpose and, accordingly, we recommend that the amount requested be approved as budgeted.

#### **Recommendations Implemented—Savings Realized**

The State Department of Education (SDE) contracted for an independent management evaluation of its food distribution program in 1984. This evaluation, which was completed in December 1984, produced 13 specific recommendations, the most significant of which called for:

- The central office to be reorganized;
- Staffing levels in the state warehouses to be reduced;
- The inventory levels in the two state warehouses to be reduced from six months to two months;
- An end to state commodity processing for local agencies; and
- Replacement of the current distribution system with a commercial system based on four regional centers.

The report concluded that implementation of its recommendations would result in (1) client agencies receiving commodities earlier in the school year and at a lower total cost and (2) potential OFD savings of up to \$4 million annually.

Given the magnitude of these potential savings, the Legislature adopted language in the *Supplemental Report to the 1985 Budget Act* directing the SDE to report to the Legislature by November 1, 1985 on (1) the status of its actions to implement the recommendations outlined in the evaluation and (2) the estimated savings realized.

The department has submitted the required report. It indicates that, of the 13 specific recommendations:

- Nine have been fully implemented;
- Two have been rejected;
- One is currently being implemented; and
- One is under review.

Specifically, four of the five major recommendations detailed above have been implemented; the SDE is reviewing the recommendation to change its current distribution system to a completely commercial regionalized system and will not make a final determination on whether to go forward with the change until November 1987. In addition, the SDE has identified annual savings of approximately \$2.5 million from implement-

**DEPARTMENT OF EDUCATION—Continued**

ing the recommendations outlined in the evaluation. As a result of these savings and other efforts (discussed below), the OFD was able to reduce the processing fees and handling charges it assesses to the local agencies which receive the commodities.

**Revolving Fund Balance is Reduced**

A reserve balance in the Donated Food Revolving Fund is necessary because (1) payments of service and handling charges by agencies receiving commodities may lag several months behind OFD expenditures for operating costs and food processing contracts and (2) it enables the OFD to enter into processing agreements on short notice, when increased supplies of food commodities become available. A growing balance, however, indicates that schools and other agencies receiving commodities are being charged more than it costs the OFD to acquire, process and distribute those commodities.

Because the SDE had failed to monitor adequately revenues and expenditures under the Surplus Food program, the reserve balance in the Surplus Food Revolving Fund (now the Donated Food Revolving Fund) increased to approximately \$17.6 million at the end of 1981-82 and to \$19.3 million at the end of 1982-83. Consequently, the USDA 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. In addition, the Legislature directed the SDE in the *Supplemental Report to the 1984 Budget Act* to maintain a reserve of \$7 million and to report quarterly to the Legislature on the balance in the fund.

The OFD achieved and maintained the \$7 million target reserve level in 1984. The target level itself, however, was found to be based on expenditure data that was no longer relevant. Consequently, the Legislature directed the SDE in the *Supplemental Report of the 1985 Budget Act* to reduce its service and handling charges so that a lower revised target balance in the Donated Food Revolving Fund would be achieved. In addition, the Legislature required SDE to continue providing quarterly reports on the status of the fund balance.

The OFD has reduced its service and handling charges from \$3.50 per case for regular delivery and \$1.50 per case for direct delivery in 1983-84, to \$2.50 and \$1.00, respectively for 1985-86. Information from the OFD indicates that the revised targeted level of reserve will be achieved by the end of the current year. Further, the OFD now routinely monitors the service and handling charges it imposes and indicates that these charges will be adjusted as needed to maintain an appropriate fund balance during the budget year.

**IV. 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 the California Assessment Program (CAP) and the Private Postsecondary Education division. Administrative issues related to particular local assistance programs are discussed in connection with the programs themselves. Issues related to the State Library, the state special schools, and the Office of Food Distribution within SDE are discussed elsewhere in this analysis and are not treated here.

**A. OVERVIEW OF THE DEPARTMENT'S BUDGET FOR 1986-87**  
**(Items 6100-001-001 and 6100-001-890)**

Table 51 shows state operations expenditures for the State Department of Education (excluding the State Library, state special schools, and Office of Food Distribution) in the prior, current, and budget years. These expenditures are proposed at \$84.1 million in 1986-87, of which \$37.6 million is requested from the General Fund, and \$39.0 million is requested from federal funds. The General Fund amount is \$1.9 million, or 5.4 percent, above the current-year support level.

**Table 51**  
**Department of Education**  
**State Operations Funding**  
**1984-85 through 1986-87**  
**(dollars in thousands)**

	<i>Actual</i>	<i>Est.</i>	<i>Prop.</i>	<i>Change From</i> <i>1985-86</i>	
	<i>1984-85</i>	<i>1985-86</i>	<i>1986-87</i>	<i>Amount</i>	<i>Percent</i>
A. Department of Education Funding:					
General Fund .....	\$28,195	\$35,725	\$37,649	\$1,924	5.4%
Federal funds.....	31,600	37,273	39,005	1,732	4.6
Special Account for Capital Outlay .....	48	17	—	—17	—100.0
Motor Vehicle Account.....	1	—	—	—	—
Environmental License Plate .....	100	—	—	—	—
Driver Training Penalty Assessment....	326	592	633	41	6.9
Private Postsecondary Administration .....	763	936	924	—12	—1.3
School Building Lease-Purchase .....	620	684	716	32	4.7
First Offender Program Evaluation.....	—	13	13	—	—
Special Deposit .....	1,289	1,063	1,083	20	1.9
State Instructional Materials .....	—39	—	—	—	—
Student Tuition Recovery .....	41	50	50	—	—
Subtotals .....	\$62,944	\$76,353	\$80,073	\$3,720	4.9%
B. Reimbursements .....	\$2,469	\$4,044	\$3,996	—\$48	—1.2%
Totals .....	\$65,413	\$80,397	\$84,069	\$3,672	4.6%

**Significant General Fund Changes in 1986-87**

Table 52 shows the components of the \$1,924,000 increase in General Fund support proposed for the State Department of Education in the budget year.

The most significant changes shown in Table 52 are (1) an increase of \$493,000 in changes to the baseline to maintain the existing budget, primarily consisting of an increase of \$1,233,000 to fund the second year of the collective bargaining agreement, plus other employee compensation adjustments, partially offset by the elimination of \$751,000 in one-time funding in 1985-86; and (2) an increase of \$1,431,000 to fund various program changes in the budget year, including funds to support the continued development of the new school district fiscal reporting system (\$304,000), and the continued development of a direct writing assessment component of the California Assessment Program test in grades 8 and 12 (\$493,000).

The budget does not include additional funding for Merit Salary Adjustments (\$38,000) or inflation adjustments to Operating Expenses and Equipment (\$1,509,000). Presumably, these adjustments will be financed by diverting funds budgeted for other purposes.

The budget proposes a total of 1,287.8 personnel years in 1986-87. This is an increase of 16.3 (1.3 percent) in the number of funded positions.

**DEPARTMENT OF EDUCATION—Continued**

**Table 52**  
**Department of Education**  
**Proposed General Fund Budget Changes**  
**State Operations<sup>a</sup>**  
**1986-87**  
**(dollars in thousands)**

1985-86 Expenditures (revised) .....		\$35,725
A. Changes to maintain existing budget:		
1. Employee compensation .....	\$1,233	
2. Elimination of one-time funding in 1985-86 .....	-751	
3. Other changes .....	\$11	
Total, changes to maintain existing budget .....		\$493
B. Program Change Proposals:		
1. Alcohol and Drug Abuse (Ch 1455/85) .....	20	
2. SDE/CSU Joint Proposal .....	48	
3. Teacher Salary Schedule Data Base .....	80	
4. Independent Study .....	90	
5. School Accounting Manual .....	95	
6. Physical Fitness Testing (Ch 1675/84) .....	150	
7. Transfer EDP Services to Teale Data Center .....	225	
8. School District Reporting System .....	304	
9. Direct Writing Assessment .....	493	
10. Position transfer to CPEC .....	-74	
Total, Budget Change Proposals .....		\$1,431
1986-87 Expenditures (proposed) .....		\$37,649
Change from 1985-86:		
Amount .....		\$1,924
Percent .....		5.4%

<sup>a</sup> Excludes state special schools, Office of Food Distribution, and State Library.

**Discrepancies in the Budget for SDE State Operations**

*We withhold recommendation on \$66,897,000 in state and federal support requested for the Department of Education's state operations, pending our receipt of (1) budget documents that reconcile with the Governor's Budget and (2) the preliminary findings of a legislatively-required management study.*

The Governor's Budget proposes total appropriations of \$80,073,000 for support of the SDE's state operations in 1986-87 (\$37,649,000 from the General Fund, \$39,005,000 from federal funds, and \$3,419,000 from special funds).

Our recommendations regarding \$13,176,000 of this amount—including funding for the Child Development division (\$4,476,000), the California Assessment Program (\$4,939,000), and special fund programs (\$3,419,000)—are discussed elsewhere in this analysis. We are withholding recommendation on the balance of the proposed appropriations—\$66,897,000—for the following reasons.

*First*, the SDE and the Department of Finance were not able to reconcile the SDE's budget detail with the numbers displayed by the Department of Finance in the Governor's Budget sufficiently early for us to

conduct a meaningful analysis of the SDE's state operation's budget.

*Second*, the firm of Price Waterhouse is conducting a legislatively-required management study of the department, and the findings from this study will have a bearing on some of the changes to the state operations budget proposed by the Governor. The contractor's preliminary report is due on March 3, 1986.

For these reasons, we withhold recommendation on \$66,897,000 requested for the SDE's state operations in 1986-87.

## **B. STATUS OF THE MANAGEMENT STUDY**

In the 1985 Budget Act, the Legislature directed the Office of the Legislative Analyst to "contract . . . with an individual, group of individuals, firm or organization deemed qualified and competent by the Legislative Analyst to study and develop recommendations concerning the management of the State Department of Education."

In response to this directive, we convened a management study advisory committee composed of legislative staff and representatives from the Department of Finance, the State Allocation Board, and the Department of Education. With input from the advisory committee, we prepared a Request for Proposals (RFP) and sent it to over 50 firms in order to solicit bids for the study. Eight firms submitted proposals in response to the RFP, and members of the advisory committee rated each of the bids.

Based on the ratings of the advisory committee members, the firm of Price Waterhouse was selected to conduct the management study and, on October 15, 1985, the contract for the study was awarded. The contract calls for Price Waterhouse to submit the following documents by the specified dates:

<i>Deliverable</i>	<i>Due Date</i>
Preliminary Report on School Facilities	December 2, 1985
Preliminary Report on all sections	March 3, 1986
Final Report on School Facilities	March 3, 1986
Final Report on all sections	June 30, 1986
Executive Summary, Final Report	June 30, 1986

Price Waterhouse submitted its preliminary report on school facilities as required by the contract, and is on schedule for the delivery of subsequent reports. (The findings of the preliminary report on school facilities are discussed elsewhere in this analysis.) We will continue to monitor the progress of the management study and report to the Legislature as appropriate.

## **C. DESCRIPTIVE ANALYSIS OF THE SDE STATE OPERATIONS**

Language contained in the *Supplemental Report of the 1985 Budget Act* requires the State Department of Education (SDE) to provide the Legislative Analyst with a detailed, descriptive analysis of the department's state operations functions during 1985-86, including all of the following:

- The department's organization chart as of July 1985;
- A description of the activities performed within each organizational unit within the department; and
- The FTE number and type of positions associated with each activity, its cost, and its funding source.

The language further directs the Legislative Analyst to include a summary of this information in the *Analysis of the 1986-87 Budget Bill*.

The SDE supplied the required information, along with other descrip-

**DEPARTMENT OF EDUCATION—Continued**

tive materials, in conjunction with a management study of the department being conducted by the firm of Price Waterhouse. Pursuant to the legislative directive, we present the following summary of the SDE state operations function in 1985-86.

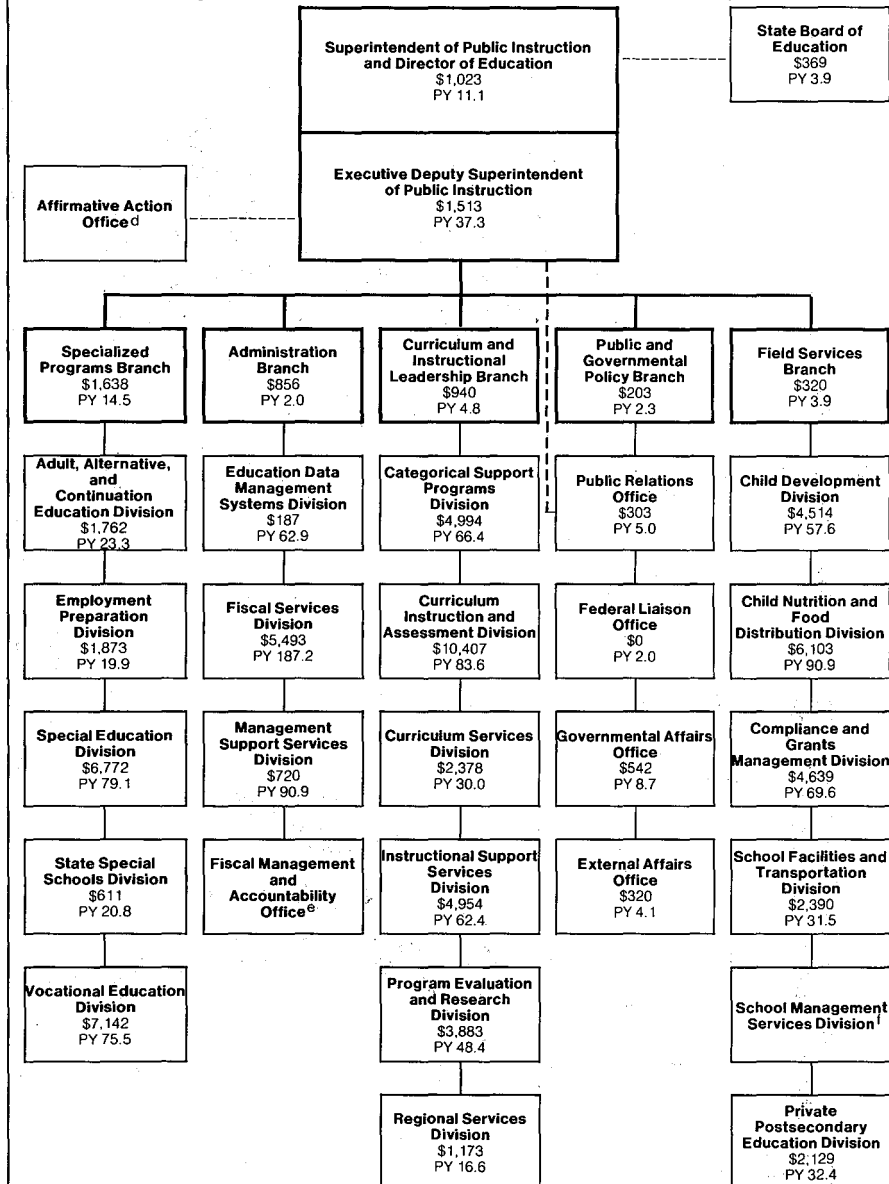
**Description Overview.** Chart 5 shows (1) the organization of the State Department of Education as of July 1985, and (2) the allocation of resources in 1985-86—both state operations funding and personnel years—for each of the main executive offices, branches and divisions of the department. (The figures shown are as of July 1985, and hence do not reconcile with the most-recent estimates displayed in the Governor's budget.)

As the chart shows, the executive offices of the SDE manage the state's education programs through five branches which, in turn, administer programs through a number of divisions. Each branch is administered by a deputy superintendent who reports directly to the Executive Deputy Superintendent and the Superintendent of Public Instruction. In the current year, the SDE is supported by a total state operations budget of \$80.15 million (\$35.3 from the General Fund, \$37.4 million from federal funds, and \$7.4 million from other sources) and 1,248.6 personnel-years. (These figures exclude the state special schools—except SDE administrative costs—the Office of Food Distribution, and the State Library.)

Chart 6 compares the allocation of resources among the executive offices and the five branches of the department. The executive offices, the Administration branch, and Public and Governmental Policy branch are responsible for the overall *administration* of the department—providing leadership, establishing policy, and performing the administrative tasks associated with running a large state department. These offices and branches account for 14 percent of the department's total state operations funding, and 33 percent of its personnel years.

The remaining three branches—Curriculum and Instructional Leadership, Specialized Programs, and Field Services—are responsible for delivering the *programs* of the SDE. (A description and analysis of each of the programs administered by these branches can be found earlier in this analysis.) As the chart shows, these three branches account for most of the SDE resources—86 percent of the funding, and 67 percent of the personnel years.

**Chart 5**  
**California State Department of Education<sup>a</sup>**  
**1985-86 Organization and Distribution of State Operations**  
**Funding<sup>b</sup> (in thousands) and Personnel-Years<sup>c</sup> (PY)**



<sup>a</sup> Excludes state special schools, Office of Food Distribution, and State Library.

<sup>b</sup> Dollar amounts reflect the distribution of overhead charges from administrative units back to program units.

<sup>c</sup> PY amounts reflect actual staffing, and are not charged back as overhead, consistent with accepted California State government practice.

<sup>d</sup> Included in Superintendent of Public Instruction office.

<sup>e</sup> Included in Fiscal Services Division.

<sup>f</sup> Included in School Facilities and Transportation Division.

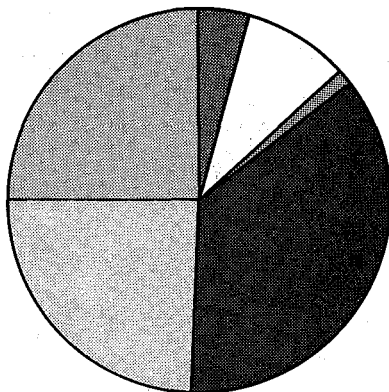
**Totals: State Operations—\$80,151,000; Personnel-Years—1,248.6.**

Chart 6

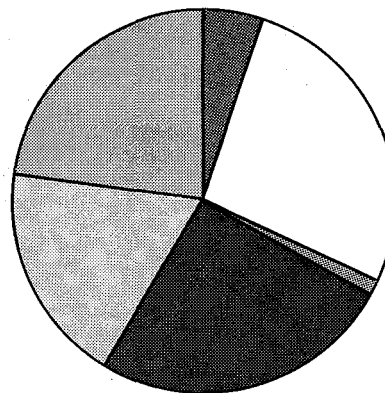
**Resource Allocation Among State Department of Education Branches  
State Operations Funding and Personnel-Years<sup>a</sup>  
1985-86**



**State Operations—all funds  
(\$80,151,000)**



**Personnel-Years  
(1248.60 PYs)**



<sup>a</sup> Excludes state special schools, Office of Food Distribution, and State Library.



The specific responsibilities of the executive offices and each of the branches and their divisions are as follows:

### **Executive Offices**

The executive offices (52.3 PYs) are responsible for establishing policies and providing leadership for California's K-12 education system. The executive offices include the Superintendent of Public Instruction, who serves as the Director of Education and the Executive Director of the State Board of Education; the Executive Deputy Superintendent; and the Affirmative Action Office, Legal Office, Executive Planning and Review Office, and Public Relations Office. These offices account for 4 percent of the department's state operations budget and 5 percent of its personnel-years in 1985-86. Total state operations funding for the executive offices in the current year is estimated at \$3.2 million (\$2.9 million from the General Fund, \$289,000 from federal funds, and \$52,000 from other sources).

### **I. Administration Branch**

The primary responsibility of this branch is to carry out the day-to-day operations of the department, including the apportioning of over \$8.1 billion in state aid to school districts and county offices of education, based on revenue limit formulas. The branch accounts for 9 percent of the department's state operations budget and 27 percent of its personnel-years in 1985-86. Total state operations funding for the branch in the current year is estimated at \$7.3 million (\$5.3 million from the General Fund, \$1.0 million from federal funds, and \$909,000 from other sources).

The divisions within this branch, their associated functions, and personnel years (PYs) are as follows:

**A. Education Data Management Systems (62.9 PYs).** This division maintains the department's data processing and information systems and develops long-range system plans. The division provides computer operations support to the department, including technical assistance to users—conducting feasibility studies and developing new applications.

**B. Fiscal Services and Fiscal Management and Accountability (187.2 PYs).** These divisions perform the main administrative duties of the department, such as (1) budgeting, accounting, and financial reporting, (2) processing and administering contracts, (3) fiscal policy planning and analysis, (4) apportioning funds to school districts and county offices of education, and (5) developing and revising the California School Accounting Manual and administering the financial reporting system for California public schools.

**C. Management Support Services (90.9 PYs).** This division provides various support services, including: the preparation, sale and distribution of department publications; business and media services; and personnel and labor relations functions.

### **II. Public and Governmental Policy Branch**

The primary responsibility of this branch is to develop and promote the department's educational policies through the enactment of legislation. This branch accounts for 1 percent of the department's state operations budget and 1 percent of its personnel-years in 1985-86. Total state operations funding for the branch in the current year is estimated at \$1.1 million from the General Fund.

The offices in this branch (the branch has no divisions) and their associated functions are:

**DEPARTMENT OF EDUCATION—Continued**

- **Federal Liaison Office (2 PYs)**—represents the SDE on federal legislation and serves as a congressional liaison;
- **Governmental Affairs Office (8.7 PYs)**—develops legislation to promote departmental goals, analyzes legislation pertaining to public education and determines the department's position, and represents the department before legislative committees; and
- **External Affairs Office (4.1 PYs)**—initiates and maintains contact with public interest groups concerning departmental goals and programs.

**III. Curriculum and Instructional Leadership Branch**

The primary responsibility of this branch is to provide leadership in and promote the basic instructional program for the state's K-12 schools. This branch accounts for 36 percent of the department's state operations budget and 25 percent of its personnel-years in 1985-86. Total state operations funding for the branch in the current year is estimated at \$28.7 million (\$12.4 million from the General Fund, \$14.6 million from federal funds, and \$1.7 million from other sources).

The divisions within this branch, their associated functions, and personnel years (PYs) are as follows:

**A. Categorical Support Programs (66.4 PYs).** This division administers the various state- and federally-funded categorical programs, including bilingual, compensatory, American Indian and migrant education.

**B. Curriculum Instruction and Assessment (83.6 PYs).** This division develops and promulgates curricula in various academic subjects, evaluates textbooks, and assesses how the state's students are doing in various subjects by administering statewide tests (such as the California Assessment Program and the Golden State Examinations).

**C. Curriculum Services (30 PYs).** This division provides technical assistance and special services to local education agencies (LEAs) in certain curricular areas. Specifically, this division (1) administers demonstration programs in reading and mathematics, (2) distributes instructional materials in traffic safety and driver training, environmental education, and multicultural education, (3) provides technical assistance and in-service training on issues such as child abuse, sexually-transmitted diseases, and genetic disorders, and (4) provides training to promote awareness of sex discrimination and monitoring of federal Title IX activities.

**D. Instructional Support Services (62.4 PYs).** This division provides leadership in improving school effectiveness by administering various programs that support the instructional program in schools. Specifically, the division provides support in the area of school climate by assisting LEAs in developing counseling and guidance plans; establishing suicide prevention, discipline, and "safe schools" programs; and coordinating base and supplementary (categorical) programs. The division provides support in the areas of school effectiveness, staff development, and school leadership by administering a variety of programs including: the School Improvement Program, state staff development programs (the Mentor Teacher, Classroom Teacher Instructional Improvement, School Personnel Staff Development, and bilingual teacher training programs), and the Administrator Training and Evaluation program. Finally, this division assists LEAs in developing programs for Gifted and Talented Education (GATE), and promotes linkages between postsecondary institutions and high schools.

**E. Program Evaluation and Research (48.4 PYs).** This division (1) evaluates various programs administered by the department and (2) collects and analyzes statewide school data—through the California Basic

Educational Data System (CBEDS)—for use in departmental planning and in response to various state and federal mandates. This division also administers the California High School Proficiency exam, and assists LEAs in improving testing proficiency.

**F. Regional Services (16.6 PYs).** This division coordinates the delivery of department services at the regional level to promote efficiency and overall departmental goals. This is done by (1) establishing and maintaining regional communication, planning and resource centers, (2) acting as a catalyst to build the capacity of regions to better deliver services, (3) coordinating with SDE curriculum units to disseminate, implement, and assess curriculum materials and services for schools and districts, (4) coordinating the superintendent's various local advisory committees, and (5) establishing a California School Recognition program by developing and implementing a system for identifying, validating, and recognizing exemplary programs and personnel throughout the state.

#### **IV. Specialized Programs Branch**

The primary responsibility of this branch is to administer various specialized educational programs. This branch accounts for 25 percent of the department's state operations budget and 19 percent of its personnel-years in 1985-86. Total state operations funding for the branch in the current year is estimated at \$19.8 million (\$4.5 million from the General Fund, \$13.0 million from federal funds, and \$2.3 million from other sources).

The divisions within this branch, their associated functions, and personnel years (PYs) are as follows:

**A. Adult, Alternative, and Continuing Education (23.3 PYs).** This division provides oversight and financial administration of (1) adult education, including apportionments to LEAs for purposes such as: apprenticeship; English as a Second Language; citizenship; elementary and high school education programs; and health and safety courses, and (2) General Educational Development (high-school equivalency) testing. The division also provides alternative education services, including disseminating information to schools and parents regarding independent study and other alternatives to conventional classroom instruction, and reviews and approves continuation and opportunity schools, and summer school programs.

**B. Employment Preparation (19.9 PYs).** This division links the SDE with other job training and employment preparation programs by (1) coordinating with the State Job Training Coordinating Council, and (2) providing field assistance to LEAs operating vocational education programs by developing cooperative agreements between various job training programs.

**C. Special Education (79.1 PYs).** This division provides a range of services to assure the availability of appropriate public education to individuals with exceptional needs, including: program and compliance review, local plan development, and collaboration with other agencies engaged in assisting the handicapped.

**D. State Special Schools (20.8 PYs).** This division acts as the central administrative headquarters of the 6 state special schools. The division also operates the Clearinghouse Depository for Handicapped Students, which provides eligible individuals with information and reading materials. (The resources shown for this division are for the Clearinghouse Depository and department administration).

**DEPARTMENT OF EDUCATION—Continued**

**E. Vocational Education (75.5 PYs).** This division provides oversight and financial administration of the federally-funded vocational education program, and the state-funded Regional Occupational Centers and Programs (ROC/Ps). The division is also responsible for directing efforts to promote vocational education in agricultural, business, home economics, and industrial, health and apprenticeship education.

**V. Field Services Branch**

The primary responsibility of this branch is to administer programs that provide ancillary support to schools. This branch accounts for 25 percent of the department's state operations budget and 23 percent of its personnel-years in 1985-86. Total state operations funding for the branch in the current year is estimated at \$20.1 million (\$9.2 million from the General Fund, \$8.4 million from federal funds, and \$2.4 million from other sources).

The divisions within this branch, their associated functions, and personnel years (PYs) are as follows:

**A. Child Development (57.6 PYs).** This division administers a range of child care programs intended to assist low-income families and children with special needs, as well as to provide extended day care for school age children before and after school. The division administers the School Age Parent and Infant Development Program and funding for repair and renovation of child care facilities, and provides child care services to participants in the GAIN program.

**B. Child Nutrition and Food Distribution (90.9 PYs).** This division administers a range of state and federal programs designed to provide nutritious meals to children. These programs include the State-Mandated Child Nutrition programs, and the federal National School Lunch, School Breakfast, Special Milk, Child Care Food, Temporary Emergency Food Assistance, and Surplus Food programs.

**C. Compliance and Grants Management (69.6 PYs).** This division manages grants and reviews the use of grant funds to ensure compliance with state laws. Specifically, the division (1) coordinates compliance reviews for categorical program, (2) resolves complaints regarding operations and funding for categorical programs, (3) audits child care food programs, migrant education, and child nutrition programs, and (4) provides management assistance to LEAs regarding categorical programs.

**D. School Facilities and Transportation, and School Management Services (31.5 PYs).** These divisions assist LEAs in the operations of school districts that are ancillary to the educational programs. Specifically, these divisions provide assistance in school facilities planning—reviewing and approving plans for major renovations and new construction, school transportation operations, financial management, risk management, and school district accounting, budgeting and other administrative operations.

**E. Private Postsecondary Education (32.4 PYs).** This division exercises jurisdiction and oversight for the programs of over 2,500 private postsecondary educational institutions. It also approves programs on behalf of the federal Veterans Administration which must occur before veterans can use their education benefits to participate in these programs. In addition it recovers tuition on behalf of students who prepaid tuition at defunct institutions.

Our analysis of issues related to these branches, divisions, and offices may be found in the appropriate section of this *Analysis*.

### D. CALIFORNIA ASSESSMENT PROGRAM

The California Assessment Program (CAP) is designed to provide 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 the 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, and the subject matter tested was limited by statute to "basic skills," such as reading, writing, and basic mathematics. Senate Bill 813 expanded the California Assessment Program to include the testing of students in grades 8 and 10. The act further requires 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. In addition, SB 1889 (Ch 1697/84) requires that the expanded grade 12 CAP test be available for use beginning with the 1985-86 school year, and be updated every three years thereafter.

**Table 53**  
**Department of Education**  
**Funding for the California Assessment Program**  
**1984-85 to 1986-87**  
**(dollars in thousands)**

Funding Source	Actual 1984-85	Est. 1985-86	Budget 1986-87	Change from 1985-86	
				Amount	Percent
General Fund .....	\$1,520	\$3,371 <sup>a</sup>	\$3,715	\$344	10.2%
Chapter 2 (Federal) .....	1,037	1,144	1,224	80	7.0
Totals .....	\$2,557	\$4,515	\$4,939	\$424	9.4%

<sup>a</sup> Includes reappropriation of \$600,000 from 1984-85.

**Budget Proposal.** The budget requests of \$4,939,000 for CAP in 1986-87. This amount would come from three sources: (1) a General Fund appropriation of \$3,025,000 in the department's main support item (6100-001-001), (2) an additional General Fund appropriation of \$690,000, which is included in the amount proposed for the Education Improvement Incentive Program (6100-107-001), and (3) \$1,224,000 in ECIA Chapter 2 federal funds. As shown in Table 53, the total amount proposed for CAP exceeds by \$424,000, or 9.4 percent, the current-year funding level.

The CAP budget has grown at a rapid rate over the past several years, going from \$1.5 million in 1982-83 to \$4.9 million proposed for 1986-87—an increase of 227 percent over the four-year period.

### The Amount Requested for CAP Has Not Been Justified

**We withhold recommendation on \$4,939,000 requested from state and federal funds for the California Assessment Program, pending receipt of (1) a revised expenditure plan from the Department of Education and (2) the department's plan for development of the writing skills assessment component.**

Our review of the budget proposal for CAP in 1986-87 identifies three deficiencies:

- The SDE's long-range expenditure plan is inadequate,

**DEPARTMENT OF EDUCATION—Continued**

- The SDE has failed to submit a plan for development of the direct writing skills assessment as current law requires, and
- The amount proposed in the budget exceeds the amount called for by the department's expenditure plan.

**Table 54**  
**Department of Education**  
**California Assessment Program**  
**Four-Year Expenditure Plan**  
**(dollars in thousands)**

Test	1985-86		1986-87		1987-88		1988-89	
	Develop- ment	Implemen- tation/ Main- tenance	Develop- ment	Implemen- tation/ Main- tenance	Develop- ment	Implemen- tation/ Main- tenance	Develop- ment	Implemen- tation/ Main- tenance
Grade 3 .....	—	\$634	—	\$660	—	\$690	—	\$723
Grade 6 .....	—	634	\$348 <sup>a</sup>	660	\$659	690	\$420	1,205
Grade 8 .....	\$145	1,148	174 <sup>a</sup>	1,200	183	1,255	—	1,572
Grade 8 (writing assessment) .....	434	—	—	971	—	1,015	—	1,060
Grade 10 .....	—	—	—	—	549	—	1,266	—
Grade 12 (old test) .....	—	683	—	714	—	747	—	—
Grade 12 (new test) .....	1,000	—	—	—	1,113	—	384	780
Grade 12 (writing assessment) .....	316	—	493	—	—	1,015	—	1,060
Content-referenced reporting system .....	—	—	455 <sup>a</sup>	—	—	—	—	—
Comprehensive Assessment System .....	—	—	931 <sup>a</sup>	—	—	—	—	—
Totals .....	\$1,895 <sup>b</sup>	\$3,099 <sup>b</sup>	\$2,401	\$4,205	\$2,504	\$5,412	\$2,070	\$6,400

<sup>a</sup> Funding requested by SDE, but not included in Governor's Budget.

<sup>b</sup> Total expenditure plan for 1985-86 exceeds available resources (shown in Table 53) by \$479,196 (please refer to text for discussion.)

**Expenditure Plan Deficient.** The department has developed a four-year plan for CAP test development and implementation as part of its attempt to strengthen fiscal control of the program (described below). This plan is outlined in Table 54. We believe the department's plan is deficient because it places SDE priorities ahead of legislative priorities, and does not identify future funding needs by source of funds.

With respect to the first of these issues, the Legislature has clearly expressed its intent that the Department of Education develop a CAP test for grade 10 and that a revised test for grade 12 be implemented during the current year. This intent has been expressed not only through enabling legislation, but by direct appropriations for these projects.

While the department has begun revising the grade 12 test, it redirected funds appropriated for the grade 10 test to cover shortfalls in other areas of the CAP budget. (The department subsequently obtained legislative approval for this redirection, but it did so after the fact.)

Furthermore, as can be seen in Table 54, the department has no plans to begin development of the grade 10 test or to continue the grade 12 test revision in the budget year. Instead, the department has developed plans to continue and initiate activities on its own priority projects. These include initial development of a "Content-Referenced Reporting System" and a "Comprehensive Assessment System," continued development and implementation of the writing skills test for grades 8 and 12, and initial development of a writing skills test for grade 6. The department requested

a total of \$2.4 million for these activities in 1986-87, of which \$493,000 is included in the Governor's Budget (the Governor proposes no funding for the Content-Referenced Reporting System, the Comprehensive Assessment System, or further development of the CAP test for grades 6 and 8).

Finally, while the department plans to resume work on the grade 10 and 12 tests in 1987-88, there are no plans to implement the grade 10 test in the next three years, and the grade 12 revision is not scheduled for implementation until 1988-89—three years after the required 1985-86 implementation date.

Thus, while the department has shown initiative in developing proposals for projects that it believes will improve student assessment in California, it has not followed through on the Legislature's directives.

We also believe the department's expenditure plan for the next three years is deficient because it does not identify funding sources for planned activities. During the past several years, CAP has received support from both the General Fund (in the department's state operations appropriation and in reappropriations from the Education Improvement Incentive Program) and from federal funds. The department should identify the amount of funding it intends to seek from each source in future years.

**No Plan for Writing Skills Assessment.** The Legislature included language in the 1985 Budget Act limiting to \$750,000 the amount the Department of Education may spend on development and implementation of a Direct Writing Skills Assessment component of the CAP test. This language further provides that these funds may be spent only upon approval by the Department of Finance and the Joint Legislative Budget Committee subsequent to review of the department's plan regarding the writing skills test. Finally, the language requires the plan to provide for the following:

- Phased implementation of the writing skills assessment;
- Evaluation of the long-term feasibility of using local teachers to score the exams;
- Adequate staffing in the Department of Education; and
- Projected cost of development and implementation over the next three years.

At the time this analysis was written, we had not received this plan from the department. We are told that the plan is scheduled for submission by late January. Since the department's plans for the writing skills test have direct implications for its budget-year funding needs, we are unable to evaluate the augmentation at this time.

**Amount Budgeted Exceeds Identified Needs.** As shown in Table 54, the department's four-year expenditure plan originally proposed \$6,606,000 for CAP in 1986-87. Of this amount, \$4,205,000 would maintain the current-year level of activity, and \$2,401,000 would be used to initiate or continue new projects. The administration, however, did not approve SDE's requests for new funding other than the \$493,000 requested for the direct writing assessment in grade 12. According to the department's expenditure plan, therefore, the funding need for CAP in the budget year is \$4,698,000—\$4,205,000 to maintain current programs and \$493,000 for the writing skills assessment. The budget, however, provides \$4,939,000 for CAP in 1986-87—\$241,000 more than what the department estimates it needs for the approved programs.

**Recommendation.** We withhold recommendation on the funding request for CAP, pending receipt from the Department of Education of (1) a revised CAP expenditure plan that responds to legislative directives

**DEPARTMENT OF EDUCATION—Continued**

and identifies proposed funding sources and (2) a proposal for development of the writing skills assessment required by current law.

**Improvement Needed in Fiscal Accountability and Control.**

*We recommend that the Legislature direct the Department of Education to explain, during budget hearings, (1) why administrative changes in the California Assessment Program have failed to improve fiscal control, and (2) how these same changes will improve fiscal control in the budget year.*

The Supplemental Report of the 1985 Budget Act required the Department of Education to "report to the legislative fiscal committees by November 15, 1985, regarding the action it has taken to strengthen the fiscal accountability and control of the administration of the California Assessment Program." This report was submitted December 11, 1985.

In its report, the department indicates that in order to strengthen control of the CAP budget it has:

- Reorganized and transferred CAP administration from the Division of Planning, Evaluation, and Research to the Division of Curriculum, Instruction, and Assessment;
- Required development of annual work plans that account for 100 percent of CAP resources;
- Required annual review of contracts to ensure alignment with work plans;
- Instituted monitoring of expenditures on a monthly basis; and
- Developed a four-year plan for CAP test development and maintenance.

The requirement that the department submit this report is a reflection of the Legislature's concern over frequent cost overruns in the CAP budget and the failure of the Department of Education to develop tests for which funding had been provided. Our review indicates that, while the report addresses these concerns, the actions taken by the department have not as yet had the desired effect of introducing control and stability to the CAP budget.

**Continued Cost Overruns in Current Year.** Even as the department was preparing plans for establishing fiscal control over the CAP budget, it was incurring cost overruns in the current year. Specifically, the department has available—through direct appropriations and reappropriations—a total of \$4,514,804 for CAP in 1985–86. The department's spending plan as outlined in its December 11 report, however, calls for an expenditure of \$4,994,000—an amount that exceeds the available funds by \$479,196.

The department is seeking approval from the Department of Finance to internally redirect General Fund and federal Chapter 2 monies to cover this shortfall. At the time this analysis was written, the Department of Finance had not rendered a decision on this request. We have learned, however, that *SDE already has redirected \$231,000 to cover the shortfall, even though it has no authorization to do so.* (Because the department does not have authorization for this redirection, it is not reflected in Table 54.)

We believe that a fundamental component of fiscal control is the ability to live within one's means. Clearly, the California Assessment Program has not yet accomplished this, despite the administrative changes described in the department's plan. Accordingly, we recommend that the Legisla-



ture direct the Department of Education to explain why the changes in CAP administration have failed to avoid budget shortfalls in 1985-86 and why the Legislature should expect these changes to avoid shortfalls in the future.

#### **E. PRIVATE POSTSECONDARY EDUCATION DIVISION (Item 6100-001-305)**

##### *We recommend approval.*

The Private Postsecondary Education division within the Department of Education regulates private schools in the state, and is the administrative arm of the Council for Private Postsecondary Educational Institutions.

The Private Postsecondary Education division 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. (The Student Tuition Recovery Fund 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 division has 32.4 positions authorized in the current year. Table 55 shows the division's support for the prior, current, and budget years.

**Table 55**  
**Department of Education**  
**Private Postsecondary Education Division**  
**1984-85 through 1986-87**  
**(dollars in thousands)**

	<i>Actual</i> 1984-85	<i>Est.</i> 1985-86	<i>Prop.</i> 1986-87	<i>Change</i> <i>From 1985-86</i>	
				<i>Amount</i>	<i>Percent</i>
State Operations.....	\$1,795	\$2,129	\$2,191	\$62	2.9%
Local Assistance .....	24	420	420	—	—
Totals.....	\$1,819	\$2,549	\$2,611	\$62	2.4%
<i>Private Postsecondary Education</i>					
<i>Fund .....</i>	<i>\$763</i>	<i>\$936</i>	<i>\$924</i>	<i>-\$12</i>	<i>-1.3%</i>
<i>Federal Trust Fund .....</i>	<i>991</i>	<i>1,143</i>	<i>1,217</i>	<i>74</i>	<i>6.5</i>
<i>Student Tuition Recovery Fund</i>	<i>65</i>	<i>470</i>	<i>470</i>	<i>—</i>	<i>—</i>
<i>Personnel-Years .....</i>	<i>30.1</i>	<i>32.4</i>	<i>32.4</i>	<i>—</i>	<i>—</i>

The budget requests \$2,191,000 for the division's state operations in 1986-87, including \$924,000 from the Private Postsecondary Education Fund (Item 6100-001-305). The total state operations budget request represents a \$62,000 (2.9 percent) increase from current-year expenditures. The budget also requests \$420,000 from the Student Tuition Recovery Fund for local assistance expenditures—an amount equal to estimated current-year expenditures. Our analysis indicates that, based on the division's anticipated workload, the amounts requested are reasonable. Accordingly, we recommend approval of these amounts as budgeted.

#### **V. STATE LIBRARY**

##### **A. OVERVIEW OF THE BUDGET PROPOSED FOR 1986-87** **(Items 6100-011-001, 6100-011-890, 6100-211-001,** **6100-211-890, and 6100-221-001)**

The California 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.

**DEPARTMENT OF EDUCATION—Continued**

The state operations budget for the State Library supports the maintenance of the various library collections (law, reference, Sutro, government publications, etc.), the provision of consultant services to public libraries, and the administration of the California Library Services Act (CLSA) and the Public Library Foundation Program. 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 covering California public library materials.

Total funding for the California State Library in the prior, current, and budget years is displayed in Table 56.

**Table 56**  
**California State Library**  
**Expenditures and Funding**  
**1984-85 through 1986-87**  
**(dollars in thousands)**

	<i>Actual</i> 1984-85	<i>Est.</i> 1985-86	<i>Prop.</i> 1986-87	<i>Change</i> <i>From 1985-86</i>	
				<i>Amount</i>	<i>Percent</i>
<b>State Operations:</b>					
Reference for the Legislature and state agencies ..	\$883	\$992	\$2,395	\$1,403	141.4%
Statewide library support and development .....	2,446	3,053	3,397	344	11.3
Special clientele services....	1,533	1,808	1,665	-143	-7.9
Support services .....	4,457	4,684	4,443	-241	-5.1
Subtotals .....	\$9,319	\$10,537	\$11,900	\$1,363	12.9%
<b>Local Assistance:</b>					
Statewide library support and development .....	\$27,048	\$41,298	\$43,718	\$2,420	5.9%
Totals .....	\$36,367	\$51,835	\$55,618	\$3,783	7.3%
<b>Funding Source:</b>					
General Fund .....	\$28,837	\$38,287	\$42,239	\$3,952	10.3%
Federal funds .....	7,486	13,535	13,366	-169	-1.2
Reimbursements .....	44	13	13	—	—

As Table 56 shows, the budget requests a total of \$55,618,000 for the State Library in 1986-87—an increase of \$3.8 million, or 7.3 percent, over the current-year level. The requested amount consists of \$42,239,000 in General Fund support—an increase of 10.3 percent; \$13,366,000 in federal funds—a decrease of 1.2 percent; and \$13,000 in reimbursements.

**Summary of Changes**

Table 57 shows that total baseline adjustments to support for the State Library result in an expenditure reduction of \$143,000. These adjustments reflect the elimination of one-time expenditures associated with the acquisition and microfilming of California newspapers (—\$321,000) and automation of the Braille and Talking Book Library (—\$143,000), as well as an increase for employee compensation (\$321,000).

**Table 57**  
**California State Library**  
**Summary of Proposed Budget Changes,**  
**By Funding Source**  
**(dollars in thousands)**

	<i>General Fund</i>	<i>Federal Funds</i>	<i>Reimburse- ments</i>	<i>Totals</i>
1985-86 Expenditures (revised) .....	\$38,287	\$13,535	\$13	\$51,835
A. Baseline Adjustments				
1. Employee Compensation.....	291	30	—	
2. One-time Adjustments .....	—143	—321	—	
Subtotals, baseline .....	\$148	—\$291	—	—\$143
B. Budget Change Proposals				
1. Public Library Foundation .....	\$1,700	—	—	
2. Library Services Automation ....	1,364	—	—	
3. California Literacy Campaign ..	500	—	—	
4. Newspaper Preservation .....	20	\$122	—	
5. Cost-of-Living Adjustments.....	220	—	—	
Subtotals, change proposals .....	\$3,804	\$122	—	\$3,926
1986-87 Expenditures (proposed) .....	\$42,239	\$13,366	\$13	\$55,618
Change from 1985-86:				
Amount .....	\$3,952	—\$169	—	\$3,783
Percent .....	10.3%	—1.2%	—	7.3%

Table 57 also shows that budget change proposals submitted for the State Library total \$3,926,000. The funding increases include:

- **Local Assistance**—\$1,700,000 for increased general local assistance to public libraries through the Public Library Foundation program;
- **Automation**—\$1,364,000 for automation of the State Library public catalog and other basic library functions;
- **Adult Literacy**—\$500,000 for increased funding of the California Literacy Campaign;
- **Microfilming**—\$142,000 to complete microfilming of the State Library's California newspaper collection and to purchase microfilm readers; and
- **COLA**—\$220,000 for cost-of-living adjustments to local assistance provided under the California Library Services Act.

The analysis which follows discusses each of these budget change proposals.

#### **B. STATE LIBRARY SUPPORT (Items 6100-011-001 and 6100-011-890)**

The budget proposes total funding for the State Library's state operations of \$11,900,000 in 1986-87—an increase of \$1,363,000 or 12.9%, over the current-year level. This amount reflects a \$1,532,000 increase in General Fund support and a decrease of \$169,000 in federal funds.

#### **Automation of Basic Library Services**

The State Library possesses a collection of over 4 million books, magazines, and documents. The basic library services associated with this collection include (1) maintaining 18 separate catalogs that provide information on all available items, (2) circulating over 125,000 items each year for use by state personnel, and (3) enlarging and updating the collection through the purchase of over \$1 million worth of new materials each year, including 120,000 serial publications.

The State Library proposes to automate its basic service areas, including

**DEPARTMENT OF EDUCATION—Continued**

the public catalog, circulations, serials control, and acquisitions. The proposed automated system is one that currently is in use at libraries on the University of California, Berkeley campus. The State Library expects the system to become fully functional in 1989-90. The State Library estimates that the costs of implementing the project will total \$5.1 million over the next four years.

The Governor's Budget requests \$1,364,000 for the first year of the State Library's automation project. This amount includes:

- \$643,000 for equipment and installation costs;
- \$610,000 to begin conversion of the library's bibliographic records; and
- \$111,000 for equipment maintenance and telecommunications costs.

The State Office of Information Technology has approved a Feasibility Study Report (FSR) covering the proposed system. Our analysis of the FSR and the State Library's Automated Systems Plan indicates that basic library services are an especially appropriate area for automation and that the proposed system will significantly enhance the State Library's ability to respond to the information needs of state government. The State Library has thoroughly examined the alternatives to the proposed system, and appears to have selected the most cost-effective solution. Our analysis of cost estimates and the implementation schedule indicates that they are reasonable, and accordingly, we recommend that the amount requested be approved as budgeted.

**Failure to Comply with Budget Act Language**

*We recommend that the Legislature direct the State Library to explain why it has failed to comply with language in the 1985 Budget Act requiring it to microfilm newspapers in its collection prior to purchasing commercially available newspapers.*

During hearings on the 1985 Budget Bill, the State Library requested a General Fund augmentation of \$244,000 so that it could begin microfilming historical newspapers that were unique to its collection. The Library argued that these additional funds were needed because many of the newspapers were in an advanced state of deterioration and microfilm copies of the newspapers were not commercially available.

The Legislature agreed that the microfilming of these newspapers should be a high priority, but rejected the Library's augmentation request. Instead, the Legislature adopted Budget Act language directing the Library to use \$321,000 in federal funds—funds that the Library originally proposed to use for the acquisition of commercially-available microfilm titles—for this purpose. The language states that "the State Librarian shall utilize funds for microfilming newspapers now available in the State Library prior to purchasing commercially available newspapers."

The State Library reports that, of the \$321,000 provided in 1985-86, \$205,000 was used to purchase commercially available newspapers, including 18 titles *not previously held in the collection*, and only \$116,000 was used to film newspapers in the Library's collection that are not commercially available.

The Governor's Budget now proposes \$109,000 to finish microfilming 1.4 million pages of newspapers remaining in the Library's collection. The newspapers to be filmed were printed prior to 1940, and the State Library reports that these documents are in a serious state of deterioration.

Our review indicates that, by using \$205,000 in 1985-86 to purchase commercially available newspapers when 1.4 million pages in the collection still remain to be microfilmed, the State Library has failed to comply with the 1985 Budget Act language. Moreover, given the poor condition of these newspapers, the State Library has potentially endangered the state's newspaper collection by delaying the microfilming. Accordingly, we recommend that the Legislature direct the State Library to explain its actions.

### **C. SUPPORT TO LOCAL LIBRARIES**

The budget proposes to provide a total of \$43.5 million in support to local libraries in 1986-87 through the California Library Services Act, the federal Library Services and Construction Act, and the Public Library Foundation Program. Each of these programs is discussed below.

#### **1. California Library Services Act (Item 6100-211-001)**

General Fund support for 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.

The budget requests \$11.7 million for CLSA in 1986-87, an increase of \$720,000, or 6.5 percent, over the estimated current-year level. This increase reflects a \$500,000 increase in funding to the California Literacy Campaign and a 2 percent cost-of-living adjustment. We recommend approval of the funds requested for the COLA (\$220,000). However, we have some concerns about the augmentation for the literacy campaign, as discussed below.

#### **a. California Literacy Campaign**

The California Literacy Campaign (CLC) was established by the State Library in September 1983 with \$2.5 million in one-time federal funds and is currently administered under the California Library Services Act. Its mission is to provide financial support and technical assistance to local public libraries for the establishment of local adult reading programs. In 1984-85, 44 projects were funded, including 27 original programs and 17 new ones.

Data provided by the State Library indicate that in 1984-85, the 44 projects served 10,583 adult learners on both a group and one-to-one basis. Of those served, 5,180 were still receiving instruction at the end of 1984-85, 4,607 had left the program for various reasons, and 796 reported meeting their personal literacy goals. Another 2,917 individuals were referred to other reading programs more suited to their needs. At the end of 1984-85, CLC had 5,524 volunteers who were tutoring, awaiting training, or awaiting assignment to an adult learner.

Last year, the Budget Act provided \$3.7 million from the General Fund to support local CLC programs. Forty-six projects are receiving funding in the current year.

**DEPARTMENT OF EDUCATION—Continued****Proposed Program Expansion Not Justified**

*We recommend that \$500,000 requested from the General Fund to augment funding to existing California Literacy Campaign programs be deleted, because (1) the State Library has no plan for the allocation of these funds and (2) the current level of funding is adequate to support the existing programs. (Reduce Item 6100-211-001 by \$500,000.)*

The Governor's Budget proposes a total of \$4,000,000 in funding for the CLC in 1986-87. This is an increase of \$500,000, or 13 percent, over the current-year funding level. According to the State Library, this amount would be used to augment the funding levels of *existing* CLC programs, and would not be used to establish any new programs in the budget year.

**Analysis.** The California Literacy Campaign's current funding policy is to provide grants only for start-up costs; state support is withdrawn gradually from assisted programs over a three-year period. In general, funding is to be reduced by a third of the original funding level in the second year, and two-thirds of the original level in the third year. Funds that become available as a result of the reduction in funding to existing CLC programs would be used to fund the start-up of new programs.

In its request for additional funds, the State Library proposed to modify its funding policy. The proposed policy is a five-year funding cycle, in which an adult literacy program would attain its maximum funding level in the second year. In the first year, the program would receive 75 percent of its maximum funding level. It would receive its maximum funding level (100 percent) in the second and third years. It would then receive 75 percent of its maximum funding level in the fourth year and 50 percent in the fifth year.

The State Library argues that a five-year period is needed for literacy programs to establish sound instructional programs *and* marshal sufficient local resources to replace state funding. We note that a five-year policy, as specified, would also double the cost of each project.

In order to implement this policy in 1986-87, the State Library would increase funding to programs that will be in their third year. In the current year, these programs, operating under the present three-year funding policy, receive approximately 67 percent of their original (and maximum) funding levels while under the proposed five-year funding policy, they would be restored to their maximum funding levels.

The State Library estimates that the additional cost of increasing funding for these third-year programs in 1986-87 is \$1,138,000. The Department of Finance rejected the State Library's request for the total amount, and instead, the Governor's Budget provides \$500,000. The Budget Bill, however, fails to specify how these funds will be allocated.

We believe that the proposed augmentation should not be approved, for four reasons.

*First*, at the time this analysis was prepared, the State Library had no plan for allocating the \$500,000 provided in the budget. Without an expenditure plan, the Legislature has no way of knowing how this money will be used, or whether its priorities would be achieved.

*Second*, the current level of funding is adequate to maintain the existing programs (as noted, the State Library has no plans to establish new programs in 1986-87). In our review of the existing CLC programs, we found no compelling need for increased funding.

*Third*, lack of increased funding does not prevent the State Library from implementing a five-year funding plan. If the State Library wishes to extend the funding for existing programs, it can do so under the current level of funding and delay the start-up of new programs in future years.

*Finally*, CLC programs in their third year should begin raising substantial amounts of local funding. Additional state funds could increase total funding for these programs well beyond their first-year (maximum) funding levels and, possibly, their funding needs.

For these reasons, we recommend that the budget proposal be rejected and that the \$500,000 to augment funding for California Literacy Campaign programs be deleted.

## **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. Awards are made on a competitive basis for locally-initiated service projects that meet the goals of the federal act. In 1985-86, the State Librarian, with the advice of the California State Advisory Council on Libraries, awarded 169 grants to applicants.

The budget estimates that the state will receive \$12.0 million in federal funds for local assistance through the LSCA. This amount maintains the current-year level of funding. Because the program is serving its intended purpose, we recommend that the amount requested be approved as budgeted.

## **3. Public Library Foundation Program (Item 6100-221-001)**

### ***We recommend approval.***

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 the activities of a library related to its role as a provider of information, education, and cultural enrichment to the community, excluding capital outlay expenses.

The budget requests \$20,000,000 for the Public Library Foundation Program in 1986-87—an increase of \$1,700,000, or 9 percent, over the amount provided in the current year. This amount will allow the supplement provided to local funding to increase from 5.78 percent of the foundation program level to 6.14 percent.

Our review indicates that the budget proposal would provide sufficient funds to continue the level of support provided for the Public Library Foundation Program in the current year, and allow for a moderate expansion of the foundation program subsidy. On this basis, we recommend that the amount requested be approved as budgeted.

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**DEPARTMENT OF EDUCATION—REAPPROPRIATION**

Item 6100-490 from the General  
Fund

Budget p. E 1

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**ANALYSIS AND RECOMMENDATIONS***We recommend approval.*

The budget proposes to reappropriate the following amounts on July 1, 1986:

- the undisbursed balance of Item 6100-146-001, Budget Act of 1985, for evaluation of the Demonstration Programs in Reading and Mathematics;
- the unencumbered balance of funds appropriated by SB 65 (Ch 1431/85) for the purpose of evaluating educational clinics; and
- the unencumbered balance of Item 6100-119-001(b), Budget Act of 1984, for the purpose of expanding Opportunity Classes and Programs.

Our analysis indicates that these proposed reappropriations are justified and, accordingly, we recommend that they be approved as budgeted.

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**DEPARTMENT OF EDUCATION—REAPPROPRIATION**

Item 6100-491 from the General  
Fund

Budget p. E 1

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**ANALYSIS AND RECOMMENDATIONS***We recommend approval.*

The budget proposes to reappropriate the following amounts on July 1, 1986 for the purpose of liquidating obligations incurred in 1984-85:

- \$248,031 from Section 5A of Ch 1603/84 to fund increased cost-of-living adjustments for child development programs and expansion of resource and referral agencies;
- \$668,325 from Section 7A of Ch 1604/84 to fund reimbursement rate increases for child development programs, and expansion of respite child care programs and child care services for children with exceptional needs.

This item is necessary to correct a technical error in the 1985 Budget Act which restricts the SDE's ability to meet contractual obligations. Item 6100-495 of the Budget Act required the reversion of the funds related to these two acts that were *undisbursed* as of June 30, 1985. The language, however, should have called for the reversion of the *unencumbered* balances related to these appropriations.



At the time this analysis was written, the SDE still had outstanding claims for reimbursement related to child care contracts that had been entered into pursuant to the authority granted by Ch 1603/84 and Ch 1604/84. The Controller has refused to process these claims, citing the language in Item 6100-495. In view of the claims, however, the Controller has not reverted to the General Fund the undisbursed balance from these appropriations.

Our analysis indicates that the language proposed in Item 6100-491 of the Budget Bill would correct this situation, and allow the controller to use the funds appropriated by Ch 1603/84 and Ch 1604/84 to fund obligations that were incurred under the authority granted by these measures. Accordingly, we recommend approval of this item.

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## DEPARTMENT OF EDUCATION—REVERSION

Item 6100-495 from various  
funds

Budget p. E 1

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### ANALYSIS AND RECOMMENDATIONS

The budget proposes to revert to the General Fund on June 30, 1986 the unencumbered balances of the appropriations made in the following acts:

- Subdivision (a) of Section 5 of Ch 1026/85 for the purpose of establishing extended day care programs;
- Subdivision (b) of Section 14 of Ch 1025/85 for expansion of child care resource and referral programs;
- Subdivision (a) of Section 4 of Ch 1299/85 for expansion of alternative payment programs for child care services; and
- Section 1 of Ch 4/85 for reimbursement of school district costs associated with court-ordered and voluntary desegregation programs.

The budget also proposes to revert to the Special Account for Capital Outlay (SAFCO) on June 30, 1986 the unencumbered balance of the following appropriation:

- Section 23.4 of Ch 798/80, as amended by Section 15.5 of Ch 209/82 for renovation and repair of child care facilities.

Our analysis indicates that the proposed General Fund reversions are justified and, accordingly, we recommend that they be approved. Our review also indicates, however, that the proposed SAFCO reversion is not warranted, as discussed below.

### Child Care Facilities Funding Should Be Reappropriated

*We recommend that the Budget Bill be amended to (1) delete reversion language and (2) add reappropriation language related to child care capital outlay. (Delete Item 6100-495 provision 036(1) and amend Item 6100-490.)*

The Budget Bill proposes to revert SAFCO funds that were appropriated for the renovation and repair of child care facilities. The budget estimates that this would increase the fund balance in the SAFCO by \$113,000.

Our review indicates that the proposed reversion is contrary to estab-

DEPARTMENT OF EDUCATION—REVERSION—Continued

lished legislative policy with respect to these funds. This funding was made available, without regard to fiscal year, in Ch 798/80, and augmented in Ch 209/82, to provide a revolving loan fund for child care agencies that needed to repair their facilities in order to comply with state and local health and safety standards. The funding has been made available on an ongoing basis through annual reappropriation in the Budget Act.

This program has been serving its intended purpose and we can find no analytical reason for reverting the funds. Accordingly, we recommend that Budget Bill Item 6100-495 be amended to delete this reversion language. We further recommend that the following language be added to Item 6100-490 of the Budget Bill to provide for reappropriation of these funds:

“036-Special Account for Capital Outlay—The unencumbered balance of Section 23.4 of Chapter 798, Statutes of 1980, as amended by Section 15.5 of Chapter 209, Statutes of 1982, for the purposes specified in Sections 8277.1 to 8277.2, inclusive of the Education Code, relating to the renovation and repair of child care facilities to ensure compliance with state and local health and safety standards and acquisition and lease of relocatable facilities.”

CONTRIBUTIONS TO STATE TEACHERS' RETIREMENT FUND

Item 6300 from the General Fund	Budget p. E 47
Requested 1986-87 .....	\$466,993,000
Estimated 1985-86.....	398,451,000
Actual 1984-85 .....	336,860,000
Requested increase \$68,542,000 (+17.2 percent)	
Total recommended reduction .....	None

1986-87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
Education Code Sections 23401 and 23402: Unfunded Liability Payments	General	\$356,305,000
6300-111-001—State Teachers' Retirement System: Cost-of-Living Adjustments	General	110,688,000
Total		\$466,993,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis  
page

1. Unfunded Liability Calculation. Recommend that the Legislature adopt supplemental report language directing the State Teachers' Retirement System to reflect the state's annual statutory contributions to the system in its actuarial "balance sheet" calculations. 1282

### GENERAL PROGRAM STATEMENT

The state appropriates funds to the State Teachers' Retirement Fund (STRF) for two purposes. First, Sections 23401 and 23402 of the Education Code (as added by Chapter 282, Statutes of 1979—AB 8) appropriates funds for the state's annual contribution to the STRF. These contributions are intended to reduce the unfunded liability of the State Teachers' Retirement System (STRS). Second, as provided by Chapter 1606, Statutes of 1982, the state also appropriates funds for supplemental cost-of-living adjustments (COLAs) to STRS retirees.

### OVERVIEW OF THE BUDGET REQUEST

The budget proposes total General Fund contributions to the STRF of \$466,993,000 in 1986–87. This is \$68,542,000, or 17.2 percent, more than estimated current-year expenditures. Table 1 shows the components of state contributions to the STRF for the past, current, and budget years.

Table 1  
State General Fund Contributions to the  
State Teachers' Retirement Fund  
1984–85 through 1986–87  
(dollars in thousands)

	<i>Actual</i> <i>1984-85</i>	<i>Estimated</i> <i>1985-86</i>	<i>Proposed</i> <i>1986-87</i>	<i>Change from</i> <i>1985-86</i>	
				<i>Amount</i>	<i>Percent</i>
<i>AB 8 Contributions:</i>					
Base Contribution .....	\$216,460	\$226,237	\$236,305	\$10,068	4.5%
Incremental Contribution .....	80,000	100,000	120,000	20,000	20.0
Subtotals .....	(\$296,460)	(\$326,237)	(\$356,305)	(\$30,068)	(9.2%)
<i>COLA Funding</i> .....	\$40,400	\$72,214	\$110,688	\$38,474	53.3%
Totals .....	\$336,860	\$398,451	\$466,993	\$68,542	17.2%

**Payments Toward Unfunded Liability.** As Table 1 indicates, the budget proposes \$356.3 million as the state's statutory AB 8 contribution to the State Teachers' Retirement Fund in 1986–87. This amount is \$30.1 million, or 9.2 percent, greater than current-year expenditures. The increase is due to: (1) the required inflationary adjustment to the "base" contribution (\$10.1 million), and (2) growth in the AB 8 "incremental" contribution (\$20.0 million).

In past years, the state's contribution toward the unfunded liability was appropriated in the Budget Act. In 1985–86, however, the budget document began showing the contribution as a *statutory* appropriation. This reflects the 1984 state appellate court's decision in *California Teachers' Association (CTA) v. Cory*, which held that the state must make the *full* contribution to the STRF called for by current law. In fiscal years 1980–81 through 1983–84, the Budget Act had provided in lieu appropriations which were *less than* what AB 8 required. The state restored these "short-falls" during the past year by transferring \$127.4 million from the General Fund to the STRF. The State Controller showed this transfer as a 1983–84 expenditure.

**COLA Payments.** The budget proposes a General Fund appropriation of \$110,688,000 to the STRF in 1986–87 to pay for supplemental COLAs for those STRS retirees who have been most adversely affected by inflation. This amount is \$38,474,000, or 53.3 percent, greater than current-year expenditures.

**CONTRIBUTIONS TO STATE TEACHERS' RETIREMENT FUND—Continued****ANALYSIS AND RECOMMENDATIONS****Current Fund Condition of the STRF**

In our *Analysis of the 1985-86 Budget Bill* (please see pages 1193-1194), we discussed the funding problem facing the State Teachers' Retirement System. As we demonstrated in that *Analysis*, the problem has two major components.

***"Normal Costs" Are Not Being Covered by Current Contributions.*** The system's normal costs (that is, the cost of funding the retirement benefits that are being earned in a given year) are not being covered by contributions to the STRF. As of December 1984 (when the last actuarial valuation was revised), the normal costs of STRS benefits were estimated at 17.64 percent of statewide certificated payroll. Given that ongoing contributions to the system are only 16 percent (8 percent from both school districts and teachers), there is a normal cost annual "shortfall" of 1.64 percent. In 1986-87, *this shortfall will amount to about \$137 million.* The estimated normal costs of STRS benefits may change, however, as a new actuarial valuation of the system's program—as of June 30, 1985—is expected to be completed by March 1986.

***The System Has a Large Unfunded Liability.*** Because normal costs have never been fully funded, the STRS has accumulated a large unfunded liability. This unfunded liability represents the cost of benefits earned in prior years that are not covered by current assets. The last actuarial valuation found the size of the STRS's accrued unfunded liability to be \$10.1 billion.

**Unfunded Liability Figures Overstate Funding Problem**

*We recommend that the Legislature adopt supplemental report language directing the STRS to reflect the value of the state's future AB 8 contributions in its calculations of the system's unfunded liability.*

As noted above, the STRS estimates that its accrued unfunded liability is \$10.1 billion (as of December 1984). This estimate, however, does *not* take into account the value of future state AB 8 contributions.

As a result of the court's ruling in the *CTA v. Cory* case, the state is legally required to make these payments; consequently, the system is guaranteed this stream of future revenues. When these payments are reflected in the system's "balance sheet," the unfunded liability falls to just over *\$1 billion*. To the extent, however, that normal costs are *not* funded in the future (which would be the case if no changes are made to current statutory contribution rates), the unfunded liability would grow.

In order to ensure that the STRS reflects the value of the state's AB 8 contributions in its actuarial balance sheet, we recommend that the Legislature adopt the following supplemental report language:

The State Teachers' Retirement System shall, in the preparation of its actuarial "balance sheet," or other similar calculations of the system's unfunded liability, reflect the "present value" of the annual state contributions to the system made pursuant to Education Code Sections 23401 and 23402.

**Supplemental Cost-of-Living Adjustments*****We recommend approval.***

The budget proposes a General Fund appropriation of \$110.7 million to the State Teachers' Retirement Fund to fund supplemental cost-of-living adjustments (COLAs) for STRS retirees under the provisions of Chapter 1606, Statutes of 1982 (SB 1562). This is an increase of \$38.5 million, or 53.3 percent, over current-year expenditures. This COLA is provided to those STRS retirees whose pensions have been *most* eroded by inflation. The payments do *not* become part of the pension base.

Chapter 1606 states the Legislature's intent to maintain STRS retirement benefits at 75 percent of their original purchasing power. Toward that end, the measure requires the Governor to budget an amount equal to 5 percent of the average statewide salary increase granted to public school teachers over the three preceding school years. For 1986-87, this amount is \$19.6 million. Thus, the budget proposes \$91.1 million more for these adjustments than the law requires.

In addition to the supplemental COLAs provided by Chapter 1606, the state also makes the following special post-retirement payments:

- ***Supplemental increases provided by Chapter 1213, Statutes of 1983 (SB 638).*** These payments are made on a *proportional* basis to all STRS retirees whose pensions are less than 75 percent of their original purchasing power. They do *not* become part of the pension base. The benefits are financed by a continuous appropriation of revenue from certain transactions involving surplus school lands. In 1986-87, \$8.6 million is expected to be available to fund these benefits.
- ***Ad hoc benefit increases provided by Chapter 1036, Statutes of 1979 (SB 629).*** These are *permanent* adjustments in the monthly allowance paid to all STRS retirees (or beneficiaries, in the case of a member's death) who retired prior to July 1, 1973. They are designed to maintain these pensions at a level equal to 72 percent of their purchasing power as of September 1979. The annual cost of these adjustments is funded by an appropriation in Item 8885. In 1986-87, the budget proposes \$25.6 million to fund these benefits.
- ***Minimum rate increases provided by Chapter 1286, Statutes of 1980 (SB 1557).*** These are *permanent* adjustments in the monthly allowance paid to certain retirees (or their beneficiaries) who retired prior to January 1, 1982, if their base allowance falls below a minimum level specified in law. The annual cost of these adjustments is funded by an appropriation in Item 8885. In 1986-87, the budget proposes \$9 million to fund these benefits.

When these payments are combined with the amount proposed pursuant to Chapter 1606, we find that the state is contributing \$154 million toward maintaining the purchasing power of STRS retirees' benefits. These funds are expected to bring all retirees' benefit levels up to at least 67 percent of their original purchasing power—up from 65 percent in the current year.

Because of the statutory limit on annual COLAs (2 percent per year, uncompounded) for STRS retirement benefits, long-time retirees were particularly hard-hit by the high inflation rates that prevailed in the late 1970s and early 1980s. In order to restore some of the purchasing power these retirees lost to inflation, we recommend that the Legislature approve the appropriation for supplemental COLA payments proposed in Item 6300-111-001.

**CONTRIBUTIONS TO STATE TEACHERS' RETIREMENT FUND—Continued**

Nevertheless, we are concerned about what these payments imply regarding the state's *long-term* responsibility for maintaining the purchasing power of STRS retirement benefits. Until the problem of inadequate COLAs is addressed by changing the system's basic benefit and funding structure, the Legislature will continually face pressure to appropriate funds for purchasing power maintenance. Consequently, it is important that the Legislature continue to evaluate alternative STRS benefit structures.

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**CALIFORNIA STATE COUNCIL ON VOCATIONAL EDUCATION**

Item 6320 from the General  
Fund and Federal Trust Fund Budget p. E 48

Requested 1986-87 .....	\$295,000
Estimated 1985-86.....	286,000
Actual 1984-85 .....	246,000
Requested increase \$9,000 (+3.1 percent)	
Total recommended reduction .....	None

**1986-87 FUNDING BY ITEM AND SOURCE**

Item—Description	Fund	Amount
6320-001-001—CSCVE, support	General	\$58,000
6320-001-890—CSCVE, support	Federal Trust	\$237,000
Total		\$295,000

**GENERAL PROGRAM STATEMENT**

The Federal Vocational Education Act of 1984 requires the state to establish an advisory council on vocational education and specifies the council's membership and duties. In order to comply with this requirement, the Legislature enacted Assembly Bill 257 (Chapter 164, Statutes of 1985), which established the California State Council on Vocational Education (CSCVE). The CSCVE replaced the California Advisory Council on Vocational Education (CACVE), which was established in 1969 in order to comply with the requirements of an earlier federal vocational education act.

The CSCVE consists of 13 members appointed by the Governor, and has planning, oversight, and evaluative functions. Specifically, the council is mandated to (1) advise the State Board of Education, the Governor, the Legislature, the business community, and the general public of the state on general vocational education policy, (2) take an active role in the development of a state plan for vocational education, (3) assess the distribution of financial assistance furnished under the federal Vocational Education Act and report on the extent to which populations with special needs are provided with equal access to quality vocational education, and (4) evaluate, at least once every two years, the vocational education program delivery systems assisted under both the federal Vocational Education Act and the Job Training Partnership Act.

In the current year, the CSCVE is staffed by four positions.

## ANALYSIS AND RECOMMENDATIONS

### *We recommend approval.*

The budget proposes expenditures totaling \$295,000 from state and federal funds for support of the CSCVE during 1986-87. This is an increase of \$9,000, or 3.1 percent, over estimated current-year expenditures.

Funding for the council in the prior, current, and budget years is summarized in Table 1. (The amounts shown in the table for 1984-85 reflect funding provided for the previous advisory council.)

**Table 1**  
**Funding for the California State Council**  
**on Vocational Education**  
**1984-85 through 1986-87**  
**(dollars in thousands)**

	<i>Actual<sup>a</sup></i> <i>1984-85</i>	<i>Est.</i> <i>1985-86</i>	<i>Prop.</i> <i>1986-87</i>	<i>Percent</i> <i>Change from</i> <i>1985-86</i>
Federal Funds:				
Funding in the current year .....	\$209	\$209	\$225	7.7%
Carryover from prior years .....	12	20	12	-40.0
General Fund .....	25	57	58	1.8
Totals .....	\$246	\$286	\$295	3.1%
Personnel-years .....	4.1	4.3	4.1	-4.7%

<sup>a</sup> Funding for the California Advisory Council on Vocational Education.

The budget requests \$58,000 from the General Fund to support the council in 1986-87, an increase of \$1,000 over the current-year level.

The budget also proposes expenditures of \$225,000 from the Federal Trust Fund, which represents the *maximum* amount that may be allotted to the California council under the new federal act. This amount is \$16,000, or 7.7 percent, above the current-year level. In the current year, the CSCVE has \$32,000 in federal funds carried over from the prior year, in addition to its annual allocation. Of this amount, \$20,000 will be expended in the current year, and \$12,000 will be carried over into the budget year.

Our analysis indicates that this program is serving its intended purpose and, accordingly, we recommend that the amount requested be approved as budgeted.

## CALIFORNIA OCCUPATIONAL INFORMATION COORDINATING COMMITTEE

Item 6330 from the Federal  
Trust Fund

Budget p. E 49

Requested 1986-87 .....	\$104,000
Estimated 1985-86.....	123,000
Actual 1984-85 .....	176,000
Requested decrease \$19,000 (-15.4 percent)	
Total recommended reduction .....	None

### GENERAL PROGRAM STATEMENT

The California Occupational Information Coordinating Committee (COICC) was established by Chapter 972, Statutes of 1978, pursuant to a requirement contained in the federal Vocational Education Act of 1978. 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. This committee was continued under the federal Vocational Education Act of 1984. It has two authorized positions in the current year.

### OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of \$104,000 from the Federal Trust Fund for support of the COICC in 1986-87. This is a decrease of \$19,000—or 15.4 percent—below estimated expenditures in the current year.

This reduction is due to the fact that during the current year COICC will use several one-time grants (including \$10,000 in reimbursements from the California Job Training Partnership Council) to publish materials on the use of labor market information and to conduct workshops for career counselors.

Table 1 shows COICC funding for the prior, current, and budget years.

**Table 1**  
**California Occupational**  
**Information Coordinating Committee**  
**Funding Summary**  
**1984-85 through 1986-87**  
**(dollars in thousands)**

	<i>Actual</i> <i>1984-85</i>	<i>Est.</i> <i>1985-86</i>	<i>Prop.</i> <i>1986-87</i>	<i>Percent Change</i> <i>From 1985-86</i>
Federal funds .....	\$100	\$113	\$104	-8.0%
Special Deposit Fund .....	76	—	—	—
Reimbursements .....	—	10	—	-100.0
Totals .....	\$176	\$123	\$104	-15.4%
Personnel-years .....	2.3	2.1	2	-4.8%



**ANALYSIS AND RECOMMENDATIONS***We recommend approval.*

During 1986-87, COICC plans to continue its efforts to develop an occupational information system for California. These efforts will include the development of methods for measuring local labor market supply and demand, for use by local educational institutions. Our review indicates that COICC's current staffing level is reasonable, and accordingly, we recommend that the amount requested be approved as budgeted.

**SCHOOL FACILITIES ASBESTOS ABATEMENT**

Item 6350 from the General

Fund

Budget p. E 51

Requested 1986-87 .....	\$5,000,000
Estimated 1985-86 .....	10,000,000
Actual 1984-85 .....	10,000,000
Requested decrease \$5,000,000 (- 50 percent)	
Total recommended reduction .....	4,850,000

**1986-87 FUNDING BY ITEM AND SOURCE**

Item—Description	Fund	Amount
6350-201-001—Asbestos Abatement: transfer to Asbestos Abatement Fund	General	\$5,000,000
6350-201-973—Asbestos Abatement: Local Assistance	Asbestos Abatement	(4,900,000)
Total		\$5,000,000

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**Analysis  
page

1. **Additional Asbestos Abatement Funds. Reduce Item 6350-201-001 by \$4,900,000 and Item 6350-201-973 by \$4,900,000.** Recommend reduction because need for additional funds has not been substantiated. Further recommend that the State Allocation Board report during budget hearings on specified insurance requirements. 1288
2. **Cal-OSHA Site Monitoring of Asbestos Projects. Augment Item 6350-201-001 by \$50,000.** Recommend augmentation so that the Department of Industrial Relations (DIR) will have adequate resources to fully monitor asbestos abatement projects. Further recommend conforming adjustment of Budget Bill language which transfers these funds to DIR. 1290

**GENERAL PROGRAM STATEMENT**

Hazardous asbestos materials are those which are "friable"—loose, crumbling, flaking or dusting—and thus make it possible for asbestos fibers to be released into the air. Exposure to airborne asbestos fibers has been linked with a number of serious diseases, including cancer, which affect primarily the lungs and digestive system.

**SCHOOL FACILITIES ASBESTOS ABATEMENT—Continued**

Current federal law requires each school district to (1) *inspect* all school facilities for asbestos and (2) *notify* parents and employees of any hazardous asbestos materials found in school buildings. Neither state nor federal law requires the containment or removal of asbestos materials which are found in schools.

In 1984, the Legislature enacted Chapter 1751, Statutes of 1984 (AB 2377), which established the Asbestos Abatement Fund. This measure also appropriated \$10 million from the Special Account for Capital Outlay (SAFCO) to the fund for matching grants to school districts in support of asbestos abatement projects during 1984–85. The act directed the State Allocation Board (SAB) to establish policies for allocating these funds, and authorized the board to establish funding priorities based on the health hazards posed by the asbestos materials in each school.

The 1985 Budget Act provided an additional \$10 million from SAFCO—\$9,900,000 for matching grants to local school districts and \$100,000 to the Department of Industrial Relations for related monitoring activities—bringing the total available for local school district asbestos abatement projects to \$19,900,000. At the time this analysis was prepared, *none of these funds had been provided to local school districts.*

The federal government also has appropriated funds to provide loans or matching grants (up to 50 percent of project costs) to local public or private schools for asbestos abatement. Approximately \$260,000 of these funds—which are distributed directly to qualifying schools and are not reflected in the state budget—were provided for asbestos abatement projects in California schools during 1984–85.

**OVERVIEW OF THE BUDGET REQUEST**

The budget proposes to appropriate \$5 million from the General Fund to the Asbestos Abatement Fund in 1986–87. Of this amount, \$4,900,000 would be allocated by the SAB to local school districts for asbestos abatement, and \$100,000 would be used to reimburse the Department of Industrial Relations for increased workload associated with monitoring asbestos abatement projects.

At the time this analysis was prepared, the amount of federal funding which will be made available to California schools for asbestos abatement projects in 1985–86 and 1986–87 had not been determined.

**ANALYSIS AND RECOMMENDATIONS****Additional Abatement Funds Not Justified**

*We recommend that the Legislature delete the funds requested for asbestos abatement projects in 1986–87 because (1) the need for additional funds has not been substantiated and (2) the current allocation system impedes schools from obtaining the funds. We further recommend that the SAB report during budget hearings on the status of specified insurance requirements imposed by the model contract. (Reduce Item 6350-201-001 by \$4,900,000 and Item 6350-201-973 by \$4,900,000.)*

If the budget request for \$4.9 million in project funds is approved, it would bring the total amount available for asbestos abatement projects to \$24.8 million.

Our review indicates that additional funding for asbestos abatement projects is not warranted at this time for three reasons.

*All of the Funds Appropriated to Date Remain Unspent.* As of De-

ember 1, 1985, the SAB had received applications from 105 school districts requesting approximately \$16 million from 628 asbestos abatement projects (a district may be conducting more than one abatement project). At the time this analysis was prepared, board staff had processed applications for 131 of the projects costing \$3.6 million. The SAB allocated \$1.9 million for projects at its November 1985 meeting and expected to approve an additional \$1.7 million at its January 1986 meeting. Nevertheless, as of February 1, *none* of the \$19.9 million available for local school district asbestos abatement projects, including the \$1.9 million already approved by the board, had been provided to school districts.

The primary reason why these funds have not been distributed, is that schools are unable to meet existing administrative requirements that must be met in order to qualify for the funds. (This impediment is discussed in greater detail below.)

***There is no evidence that the amount available is not adequate to meet the need.*** To date, the board has received approximately \$16 million in requests for asbestos abatement funds. This is less than the \$19.9 million currently available. The *need* for asbestos abatement funds, however, could be significantly higher or lower than the amount requested so far.

On the one hand, the amount of funding needed could exceed \$16 million to the extent (1) schools still have not completed the inspection required by federal law or (2) asbestos initially found to be intact becomes friable. Furthermore, Chapter 1587, Statutes of 1985, may cause the cost of asbestos abatement projects to increase, since the act (1) designates minimum qualifications for specified personnel employed to remove asbestos and (2) requires the use of specified highly technical air monitoring tests.

On the other hand, the amount of funding required could be less than \$16 million if the SAB's reviews determine that all or part of some proposed projects are not eligible for funding. This is especially likely since Chapter 1587 tightened the eligibility requirements for certain projects. For example, to qualify for state funds, the airborne concentration of asbestos for projects other than pipe and block insulation must exceed specified minimum standards. No such minimum standard existed previously. Because these requirements were enacted *after* most schools had submitted their applications for funds, unknown number of projects which previously were eligible for funding are now ineligible.

***Model Contract Impedes Schools From Obtaining Funding.*** Language in the *Supplemental Report of the 1985 Budget Act* directed the SAB to develop, by October 1, 1985, a model contract and require that it be used by any school district or county office of education in order to receive state funds for asbestos abatement projects. Among its many provisions, the 96-page model contract developed by the board requires contractors bidding on a school district's asbestos abatement project to have a minimum of \$1 million in general liability insurance coverage. This level of coverage is consistent with requirements imposed by (1) certain other states for asbestos abatement projects and (2) California for state construction projects and for state-funded local school facility construction and reconstruction projects.

Our review indicates that most insurance companies are unwilling to offer, at any price, policies providing \$1 million in liability insurance coverage for asbestos-related construction projects. As a result, many school districts have been unable to obtain such coverage and, consequently, are unable to qualify for asbestos abatement funds. Department staff are

**SCHOOL FACILITIES ASBESTOS ABATEMENT—Continued**

aware of this problem and planned to present a proposal for alleviating it to the SAB at the board's January 1986 meeting.

Until the SAB can provide a reliable estimate of funding need and remove existing impediments to the disbursement of funds, the Legislature should not tie up approximately \$4.9 million of General Fund monies for asbestos abatement projects—especially when those funds can be applied to other high-priority uses where a need can be substantiated. Accordingly, we recommend that the Legislature delete the \$4.9 million requested for asbestos abatement projects in 1986–87. We further recommend that the board report at the time of budget hearings on the status of the model contract insurance requirements.

**Cal-OSHA Monitoring Activities**

*We recommend that the Legislature augment by \$50,000 the \$100,000 requested to reimburse the Department of Industrial Relations (DIR) for its monitoring of asbestos abatement projects. (Augment Item 6350-201-001 by \$50,000.)*

The budget proposes to appropriate \$100,000 from the General Fund for transfer to DIR. The department, through its Division of Occupational Safety and Health (Cal-OSHA program), has the responsibility for monitoring asbestos abatement projects.

In the current years, DIR received \$100,000 from the Asbestos Abatement Fund to reimburse it for increased workload associated with the asbestos abatement projects. (The Legislature also provided a \$100,000 General Fund augmentation directly to Cal-OSHA to further offset monitoring costs. These funds were vetoed by the Governor.)

The projects to be financed with the \$19.9 million in asbestos abatement monies currently available will not commence until the budget year, since most districts do abatement work during summer vacation. Consequently, during 1986–87, DIR will need to provide the full level of monitoring and enforcement activities for projects funded in the current year. The DIR has used the \$100,000 appropriated in the current year to support monitoring activities for other purposes.

Our review of the department's school asbestos abatement enforcement plan indicates that the level of monitoring and enforcement activity associated with the \$19.9 million already available for school asbestos abatement projects will cost approximately \$150,000 in 1986–87. Therefore, we recommend that the Legislature augment by \$50,000 the amount proposed for transfer to DIR. We further recommend a conforming adjustment of the Budget Bill language in order to reflect this augmentation.

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## COMMISSION ON TEACHER CREDENTIALING

Item 6360 from the Teacher  
Credentials Fund

Budget p. E 54

Requested 1986-87 .....	\$7,540,000
Estimated 1985-86.....	7,737,000
Actual 1984-85 .....	6,365,000
Requested decrease \$197,000 (-3.0 percent)	
Total recommended reduction .....	None

### 1986-87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
6360-001-407—Main support	Teacher Credentials	\$7,540,000
6360-011-001—Loan fund	General	(500,000)

### SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis  
page*

1. Funding Alternative. Recommend that the Legislature enact legislation to (1) increase credential fee from \$40 to \$50, and (2) authorize the commission to charge accreditation fees and registration fees. 1295
2. **Computer Education Study.** Augment Item 6360-001-407 by \$10,500. Recommend that the Legislature provide General Fund support for the study mandated by AB 1681. 1296
3. Funding for Automation. Recommend that the commission and the Department of Finance, at the time of budget hearings, (1) report on the status of the Feasibility Study Report for automating the credential application process, and (2) identify what portion of the costs associated with the automation project, would appropriately be funded from the General Fund. 1296

### GENERAL PROGRAM STATEMENT

The Commission on Teacher Credentialing (CTC) is responsible for (1) developing standards and procedures for credentialing teachers and administrators, (2) issuing and revoking credentials, (3) evaluating and approving programs of teacher-training institutions, (4) developing and administering "legislatively-mandated" competency exams, and (5) establishing policy leadership in the field of teacher preparation. The commission, which is supported by the Teacher Credentials Fund, has 103.9 authorized positions in the current year.

### OVERVIEW OF THE BUDGET REQUEST

The budget, as shown in Table 1, proposes an appropriation of \$7,540,000 from the Teacher Credentials Fund for support of the commission in 1986-87. This is a decrease of \$197,000, or 3 percent, below estimated current-year expenditures. The budget does not include additional funding for Merit Salary Adjustments (\$6,000) or inflation adjustments to Operating Expenses and Equipment (\$175,000). The commission will have to absorb these costs.

**COMMISSION ON TEACHER CREDENTIALING—Continued**

**Table 1**  
**Commission on Teacher Credentialing**  
**Budget Summary<sup>a</sup>**  
**1984-85 through 1986-87**  
**(dollars in thousands)**

	<i>Actual</i> 1984-85	<i>Est.</i> 1985-86	<i>Prop.</i> 1986-87	<i>Percent Change</i> From 1985-86
Credential issuance and information .....	\$1,938	\$2,166	\$2,170	0.2%
Certification standards and program approval .....	660	748	758	1.0
Program monitoring and evaluation.....	468	550	526	-4.0
Examinations.....	2,070	2,703	2,585	-4.0
Professional standards.....	1,229	1,570	1,501	-4.0
Administration <sup>b</sup> .....	(1,294)	(1,531)	(1,463)	-4.0
Total Expenditures .....	\$6,365	\$7,737	\$7,540	-3.0%
Personnel-years.....	93.6	101.9	97.6	-4.2

<sup>a</sup> Teacher Credentials Fund.

<sup>b</sup> Administration costs distributed among other program elements.

The budget also proposes a reduction of 4.3 personnel-years from the commission's staffing level in the current year. This reduction primarily results from the elimination of temporary help positions that were authorized in the current year for the purpose of reducing to 30 days the average amount of time needed to award a credential to an applicant.

**Table 2**  
**Commission on Teacher Credentialing**  
**Proposed 1986-87 Budget Changes**  
**(dollars in thousands)**

1985-86 Expenditures (revised) .....	\$7,737
A. Changes to Maintain Existing Budget: .....	-330
Nonrecurring expenditures .....	-254
Pro rata adjustments .....	-144
Rental adjustment .....	-105
Employee compensation.....	152
Postage rate increase.....	10
Eliminate one-time salary savings increase .....	11
B. Budget Change Proposals: .....	133
Review of single-subject waiver programs.....	13
Temporary help for credential application processing workload .....	90
Computer education regulations and study (AB 1681) .....	30
1986-87 Expenditures (proposed) .....	\$7,540
Change from 1985-86:	
Amount .....	-\$197
Percent .....	-3.0%

Table 2 shows the changes in the commission's budget proposed for the budget year. As the table shows, the amount needed to maintain the commission's existing level of service will decrease by a net \$330,000. Funding requirements will decline by \$503,000 as a result of (1) nonrecurring expenditures in the current year, (2) a decline in pro rata charges (charges for services provided to the commission by other state agencies), and (3) a decline in rent. Partially offsetting this reduction are increases amounting to \$173,000 which are needed to fund (1) the second year of

the collective bargaining agreement approved in 1985, plus other employee compensation adjustments, (2) postage rate increase, and (3) elimination of a one-time increase in salary savings taken in the current year.

## ANALYSIS AND RECOMMENDATIONS

Table 2 also shows that budget change proposals would increase expenditures by \$133,000 in 1986-87. We recommend approval of the increases proposed for:

- **"Single-Subject Waiver Program" Review:** The budget requests \$12,552 to fund the ongoing costs of reviewing single-subject credential programs that an applicant may complete in lieu of passing an examination on the subject matter. The initial cost of reviewing all "single-subject waiver programs" was funded by a one-time augmentation of \$42,000 in 1983-84, of which \$22,000 was carried over and used to complete the reviews in 1984-85. The proposed budget-year augmentation would provide for the ongoing costs of reviewing new programs in 1986-87 and beyond.
- **Temporary Help For Credential Application Processing:** The budget requests \$90,216 to hire personnel on a temporary basis, thereby allowing the commission to appropriately staff for the projected 1986-87 credential application workload. Since credential application volume varies from year to year, the commission does not propose to hire permanent full-time staff for this purpose.

Later in this analysis, we discuss the \$30,000 requested to carry out duties mandated by AB 1681 (Ch 1433/85).

### I. The Commission's Funding Problems

#### A. Nature of the Problem

The Commission on Teacher Credentialing is supported entirely by fee revenue, most of which is derived from credential and examination fees. These fees have generated adequate revenues to finance the commission in the past, but in recent years they have failed to keep pace with the commission's funding needs. As a result, the reserve balance in the Teacher Credentials Fund has declined from the \$2.0 million (41 percent of the commission's annual expenditures) reached at the end of 1982-83, to an estimated \$764,000 (10 percent of expenditure) at the end of 1985-86.

Unless actions are taken either to reduce the commission's expenditures or increase its revenues, the fund is projected to be in a deficit condition by the end of 1986-87.

In recognition of this problem, the Legislature directed the Legislative Analyst to examine alternatives to the present system for funding the commission. The results of this examination were submitted to the Legislature in December 1985, in a report entitled *A Review of Funding Alternatives for the Commission on Teacher Credentialing*.

Our review indicates that the current system for funding the commission:

- Is not providing enough revenue to support the commission's current level of activity, and unless the Legislature acts to increase the commission's revenues or cut back its existing program, the Teacher Credentials Fund will run a deficit in 1986-87;
- Does not require all of those who benefit from the commission's activities to help fund them, thereby violating the "benefit principle,"

**COMMISSION ON TEACHER CREDENTIALING—Continued**

a commonly-accepted criterion used to assess fairness in public finance;

- Does not yield a stable flow of revenues, which hinders the commission's ability to conduct long-term planning; and
- Does not provide useful data on the supply of and demand for teachers.

**B. How the Budget Proposes to Address These Problems**

The Commission on Teacher Credentialing recently has taken the following actions designed to bring revenues and expenditures more into line:

**Expenditure Reductions.** In October 1985, the commission voted to reduce its expenditures in the current and budget years by a total of \$400,000. This reduction can readily be achieved because (1) the commission's rent charges will be significantly lower than anticipated in both the current and budget years (for a savings of \$245,000), and (2) its pro rata charges will be much lower in the budget year (for a savings of \$144,000). The commission estimates that the remaining \$11,000 reduction will be made up through increased salary savings.

**Credential Fee Increase.** The commission voted in November 1985 to seek enactment of urgency legislation increasing the credential fee from \$40 to \$65. The budget proposal for funding the commission assumes that such legislation will be enacted. If legislation to increase the fee level is not passed, the Teacher Credentials Fund will go into deficit during 1986-87. Table 3 displays the condition of the Teacher Credentials Fund. As the table shows, the budget proposed for the commission is only viable if legislation is passed increasing the credential fee.

**Table 3**  
**Condition of the Teacher Credentials Fund**  
**1986-87**  
**(dollars in thousands)**

	<i>Condition of Fund Under</i>	
	<i>Current Law</i>	<i>Governor's Proposal</i>
Balance, start of year (adjusted) .....	\$764	\$764
Revenues:		
Credential fee .....	3,400 <sup>a</sup>	5,525 <sup>b</sup>
Examination fees .....	2,221	2,221
Fingerprint fees .....	597	597
Interest income .....	95	95
Totals, Resources .....	\$7,077	\$9,202
Expenditures (Governor's Budget proposal) .....	7,540	7,540
Balance, end of year .....	-\$463	\$1,662

<sup>a</sup> Credential fee of \$40.

<sup>b</sup> Credential fee of \$65.

**General Fund loan to meet cash flow problems in budget year.** Even if legislation increasing the credential fee level is passed, there is a lag before the commission will realize any significant increase in revenues. Hence, even if the credential fee is increased, the commission is likely to experience cash flow problems in 1986-87. Consequently, the budget pro-



poses to make available up to \$500,000 from the General Fund, (1) if legislation is passed in 1986-87 increasing the credential fee, and (2) should the commission have short-term borrowing needs in the budget year. The Budget Bill includes language specifying that any funds borrowed from the General Fund must be paid back by June 30, 1987.

### **C. Legislative Analyst's Proposal to Address CTC Funding Problems**

*We recommend that the Legislature (1) enact urgency legislation increasing the maximum credential fee level from \$40 to \$50, in order to meet the immediate funding needs of the commission, and (2) enact legislation authorizing the commission to charge accreditation fees and registration fees.*

As Table 3 shows, increasing the credential fee from \$40 to \$65 would provide the commission with adequate funds to finance its current level of activity. Our analysis indicates, however, that an increase in the credential fee would not address the other problems identified in our report, and in fact, would exacerbate the inequities in the current system.

In our report, we recommend a set of actions which we believe would overcome the deficiencies in the current funding arrangement. Our recommendations are as follows:

1. *Increase the credential fee by \$10 (from \$40 to \$50).* This would yield approximately \$850,000 in additional revenue during 1986-87, and would thus enable the commission to meet its immediate funding needs.

2. *Impose a registration fee on all practicing teachers.* The revenue raised by this fee should be used to cover the cost of maintaining professional standards, developing legislatively-mandated examinations, and developing regulations. Clearly, all practicing teachers benefit from the commission's activities. Therefore, it is reasonable to require that all teachers contribute toward the support of the commission on an ongoing basis.

3. *Charge postsecondary institutions an accreditation fee to cover the cost of evaluating and approving teacher education programs.* Clearly, the institutions offering education programs benefit from the commission's program evaluation and approval activities. Accordingly, it is reasonable to require these institutions to help support the commission through the payment of accreditation fees.

4. *Provide General Fund support to cover the costs of studies, data collection and reporting activities undertaken at the Legislature's direction or which primarily serve the Legislature's information needs.* Ultimately, the general public benefits from these activities. Hence, it would be appropriate for the state General Fund to support some or all of them.

We recommend that the Legislature *not* provide General Fund support for the professional standards activities of the commission. Although the general public derives some benefit from the commission's professional standards activities, the primary beneficiary of these activities is the teaching profession itself. Accordingly, it is appropriate for the teaching profession to finance these activities through fees. This, in fact, is the policy that the Legislature has followed in funding the professional standards activities of virtually all other boards and commissions in California.

In sum, we believe that the combination of a \$50 credential fee, new registration and accreditation fees, and General Fund support would stabilize the commission's funding structure and make it more equitable. Furthermore, instituting a registration fee would enable the commission to gather better data on the supply of, and demand for, teachers.

Accordingly, we recommend that the Legislature (1) enact urgency

**COMMISSION ON TEACHER CREDENTIALING—Continued**

legislation increasing the maximum credential fee level from \$40 to \$50, in order to meet the immediate funding needs of the commission, (2) enact legislation authorizing the commission to charge accreditation fees and registration fees, and (3) provide General Fund support for certain commission activities which primarily serve the Legislature's information needs. (Recommendations for funding specific commission activities from the General Fund are discussed below.)

**II. Budget Issues****Computer Education Study a Candidate for General Fund Support**

*We recommend that the Legislature provide \$10,500 from the General Fund to study the effectiveness of training teachers and resource personnel in computer education, as mandated by AB 1681 (Ch. 1433/85).*

To carry out the mandates of AB 1681, the commission is requesting a total of \$30,000 to (1) develop regulations relating to the computer education coursework required for a teaching credential (\$19,500), and (2) conduct a study on "the effectiveness of the training and performance of teachers and resource personnel in the area of computer education" (\$10,500). Consistent with the recommendations made in our report on funding alternatives for the commission, we believe that, if the study is conducted, it should be supported from the General Fund. This study was specifically requested by the Legislature, and will primarily help the Legislature determine whether further legislation in this area is needed.

It would not benefit directly an identifiable group of teachers, and consequently should not be funded from the credential fee. Accordingly, we recommend that the Legislature appropriate \$10,500 from the General Fund for the purpose of conducting this study.

**Funding Proposal for Automation Needed In Budget Year**

*We recommend that the Legislature direct the Commission on Teacher Credentialing and the Department of Finance, at the time of budget hearings, to (1) report on the status, of the feasibility study report (FSR) for automation of the credential application process, and (2) identify what portion of the costs associated with automation would be appropriately funded from the General Fund.*

A \$30,000 legislative augmentation was included in the 1984 Budget Act for the commission to use in contracting for an examination of its electronic data processing needs. This study was completed and submitted to the Legislature in November 1984. As we reported in last year's *Analysis*, our review of that report indicated that (1) automation of the commission's credential application process is needed and (2) significant benefits would result from such automation, including: reduced application processing time, automated reporting capabilities, and significant savings.

Subsequently, in the Budget Act of 1985, the Legislature (1) provided \$35,000 for the commission to use in completing a feasibility study report (FSR), and (2) adopted supplemental report language specifying its intent that automation begin as soon as the FSR is completed and approved by the Department of Finance (DOF), provided that sufficient funds were available in the Teachers Credentials Fund.

**Status of FSR.** The commission is in the process of completing the FSR. As a result, the budget proposes that no funds be provided for automation in 1986-87. We understand, however, that the FSR will be com-

pleted prior to budget hearings. Hence, in keeping with the Legislature's intent, we recommend that the commission and DOF report to the Legislature, at the time of budget hearings on the status of the FSR.

**Funding the Automation Project.** In the *Supplemental Report of the 1985 Budget Act* the Legislature specified that during the current year the commission should apply for funds through the Section 28 process and begin automation provided the DOF determines that there are sufficient funds in the Teacher Credentials Fund to support the increased expenditures. At the time this analysis was prepared, it was not clear whether there would be sufficient funds in the Teacher Credentials Fund to support the commission's automation project. On the other hand, this is a project for which partial General Fund support would be appropriate.

Such support would be justified because a by-product of automating the credential application process will be more useful data on teacher supply and demand. Such information will be particularly useful to the Legislature as it considers ways to address the impending shortage of teachers. Hence, we recommend that the Legislature either provide General Fund support for some portion of the commission's automation efforts, or provide a General Fund loan to the commission to support the project's initial costs.

Because the FSR has not yet been completed, we are not able to identify what portion of the automation project's cost would be associated with the compilation of data on the teaching profession. Once the FSR is completed, the appropriate level of General Fund support for the activity can be determined. Accordingly, we recommend that the Legislature direct the commission and the DOF to identify what portion of the costs would be appropriately funded from the General Fund.

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