MAJOR ISSUES

K–12 Education

✔ The State Should Develop a K-12 Framework

- The budget contains a number of major issues that raise the question of the role of the state in the design and operation of the K-12 system. There is no context, however, for determining whether these proposals reenforce the appropriate division of state and local responsibilities.
- The state should develop a long-term framework that identifies the proper roles the state and local districts play in the areas of governance, finance, and standards. This framework would guide the Legislature in evaluating significant K-12 policy and budget proposals (see page E-17).

✔ Legislature Faces Three Key Decisions in Developing Its 1998-99 K-12 Expenditure Plan

- ***Level of the Guarantee.*** Our estimate of the 1998-99 minimum guarantee for K-12 education is $176 million *less* than the budget's. We have developed an alternative budget that differs significantly from the Governor's proposed plan (see page E-27).
- ***Cost-of-Living Adjustment (COLA).*** The budget proposes a 2.22 percent COLA instead of the 4 percent COLA called for in statute. We recommend the lower amount as it more accurately reflects inflation that has occurred over the past year (see page E-30).
- ***Longer School Year.*** This one proposal accounts for $350 million in new funds in the budget year. We recommend the Legislature reject the Governor's proposal because more

days of the same type of instruction have not been found to improve student achievement (see page E-38).

✔ Statewide Assessment Is Behind Schedule

- The statewide test of applied academic skills will not be ready by spring 1999, as planned. We recommend the Legislature (1) delete $30.2 million proposed for the development and administration of this test and (2) allow test development to begin along with development of performance standards (see page E-49).

✔ Budget Increases Proposition 98 Child Care Support of CalWORKs Program

- The budget proposes to spend $88.5 million in Proposition 98 funds for child care services exclusively for CalWORKs recipients. The Legislature will want to review this proposal as it evaluates its priorities for the use of Proposition 98 and General Fund monies.
- The budget also poses several implementation issues due to its proposal to divide administration of CalWORKs child care between the State Department of Education and county welfare departments. We recommend the Legislature take several actions to address these issues (see page E-58).

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OVERVIEW

K–12 Education

The budget includes an increase in K-12 Proposition 98 funding of $1.7 billion in the budget year. This is $222 per student, or 4.1 percent, more than the revised estimate of per-student expenditures in the current year. The budget also proposes to spend $472 million from prior-year Proposition 98 funds in 1998-99.

Figure 1 (see next page) shows the budget from all fund sources for K-12 education for the budget year and the two previous years. Proposition 98 funding constitutes about three-fourths of overall K-12 funding. In 1998-99, Proposition 98 funding is projected to increase by $222 per student to $5,635. This is a 4.1 percent increase from the revised 1997-98 per-student amount. (Our estimate reflects recent legislative changes that significantly revise the way average daily attendance [ADA] is counted. These changes are discussed in detail later in this *Analysis*.)

The budget also proposes to spend $472 million from prior-year Proposition 98 funds in 1998-99. As a result of increases in the minimum amounts guaranteed to schools in 1996-97 and 1997-98 (due primarily to higher tax revenues and increased ADA), the state owes schools $427 million more for those years (referred to as "settle-up" funds). An additional $46 million results primarily from *unspent* prior-year Proposition 98 funding.

Figure 1 also shows that the budget includes expenditures of $3.4 billion in federal funds in 1998-99. This is $88 million, or 2.6 percent, more than estimated federal expenditures in the current year. This change results primarily from a $68 million increase in special education funding.

School Districts by Type and Enrollment. A total of 5.5 million pupils attended school in California's 999 school districts in 1996-97. Figure 2 (see page 7) provides enrollment data by size of school district. Enrollment levels vary significantly among school districts. For example, the state's largest school district, Los Angeles Unified, enrolled 667,305 students in 1996-97, which is more than the combined enrollment of over 650 of the state's smallest school districts.

Figure 1

K-12 Education Budget Summary

1996-97 Through 1998-99
(Funding in Millions)

	Actual 1996-97	Estimated 1997-98	Proposed 1998-99	Change From 1997-98	
				Amount	Percent
K-12 Proposition 98					
State (General Fund)					
Cash	$18,268.6	$20,194.4	$21,546.0	$1,351.6	6.7%
Loan repayment	150.0	200.0	250.0	50.0	25.0
Local property tax revenue	8,523.8	8,880.6	9,241.0	360.4	4.1
Subtotals, Proposition 98	($26,942.4)	($29,275.0)	($31,037.0)	($1,762.0)	(6.0%)
Other Funds					
General Fund					
Teachers retirement	$809.4	$876.9	$645.5	-$231.3	-26.4%
Bond payments	761.0	787.9	849.8	61.9	7.9
Other programs[a]	-95.6	393.5	231.1	-162.4	-41.3
State Lottery funds	585.3	656.5	755.1	98.6	15.0
Other state funds	51.2	66.6	59.1	-7.4	-11.2
Federal funds	2,760.6	3,350.3	3,438.0	87.6	2.6
Other local	2,590.0	2,584.2	2,587.2	3.0	0.1
Totals	**$34,404.3**	**$37,991.0**	**$39,602.8**	**$1,611.9**	**4.2%**
K-12 Proposition 98					
Average Daily Attendance (ADA)[b]	5,238,926	5,370,279	5,462,947	92,668	1.7%
Amount per ADA (excluding loan)	$5,114	$5,414	$5,635	$221	4.1%

[a] Includes unspent Proposition 98 funds and past-year “settle-up” funds.
[b] ADA adjusted to exclude excused absences for all years.

PROPOSITION 98

Proposition 98, enacted in 1988 as a voter-approved amendment to the California Constitution (later amended by Proposition 111 in 1990), establishes a minimum funding level for K-12 schools and the California Community Colleges (CCC). Proposition 98 also provides support for direct educational services provided by other agencies, such as the state’s special education schools and the California Youth Authority. Proposition 98 funding constitutes over three-fourths of total K-12 funding.

The minimum funding levels are determined by one of three specified formulas. Figure 3 (see next page) briefly explains the workings of Proposition 98, its "tests," and other major funding provisions. The five major factors involved in the calculation of each of the Proposition 98 "tests" include: (1) General Fund revenues, (2) state population, (3) personal income, (4) local property taxes, and (5) K-12 ADA.

Because these factors change during the year, the minimum guarantee under Proposition 98 also changes. Any additional amount needed to fund any *increase* in a previous year's guarantee is referred to as Proposition 98 "settle-up" funding. The Governor's budget includes $478 million related to "settle-up" for prior years for both K-12 and community colleges ($147 million from 1996-97 and $331 million from 1997-98).

Figure 2

Distribution of School Districts by Enrollment October 1996

	Number of Districts				Enrollment	
Enrollment Level	**Elem**	**High School**	**Unified**	**Total**	**Total**	**Percent of Total**
More than 200,000	—	—	1	1	667,305	12.0%
100,000 to 199,999	—	—	1	1	133,687	2.4
50,000 to 99,999	—	—	6	6	379,491	6.8
40,000 to 49,999	—	—	3	3	138,789	2.5
20,000 to 39,999	2	5	35	42	1,164,453	21.0
10,000 to 19,999	22	11	55	88	1,252,072	22.5
5,000 to 9,999	50	18	60	128	905,320	16.3
2,500 to 4,999	63	21	52	136	475,943	8.6
1,000 to 2,499	91	21	48	160	280,187	5.0
500 to 999	90	18	21	129	93,813	1.7
Less than 500	267	10	28	305	62,215	1.1
Totals	**585**	**104**	**310**	**999**	**5,553,275**	**100.0%**

Data exclude county offices of education. Grand total including county offices is 5,612,965.

Figure 3

Proposition 98 at a Glance

Funding "Tests"

Proposition 98 mandates that a minimum amount of funding be guaranteed for K-14 school agencies equal to the greater of:

- A specified percent of the state's General Fund revenues (Test 1), or
- The amount provided in the prior year, adjusted for growth in students and inflation (Tests 2 and 3).

Test 1—Percent of General Fund Revenues

Approximately 34.5 percent of General Fund plus local property taxes.

Requires that K-12 schools and the California Community Colleges receive at least the same share of state General Fund taxes as in 1986-87. This percentage was originally calculated to be slightly greater than 40 percent. In recognition of shifts in property taxes to K-14 schools from cities, counties, and special districts, the current rate is approximately 34.5 percent.

Test 2—Adjustments Based on Statewide Income

Prior-year funding adjusted by growth in per capita personal income.

Requires that K-12 schools and the California Community Colleges receive at least the same amount of combined state aid and local tax dollars as was received in the prior year, adjusted for statewide growth in average daily attendance and inflation (annual change in per capita personal income).

Test 3—Adjustment Based on Available Revenues

Prior-year funding adjusted by growth in per capita General Fund.

Same as Test 2 except the inflation factor is equal to the annual change in per capita state General Fund revenues plus 0.5 percent. Test 3 is used only when it calculates a guarantee amount less than the Test 2 amount.

Other Major Funding Provisions

Suspension

Proposition 98 also includes a provision allowing the state to suspend the minimum funding level for one year through urgency legislation other than the budget bill.

Restoration ("Maintenance Factor")

Proposition 98 includes a provision to restore prior-year funding reductions (due to either suspension or the "Test 3" formula). The overall dollar amount that needs to be restored is referred to as the "maintenance factor."

Proposition 98 Allocations by Segments

Figure 4 displays the allocation of Proposition 98 funding by segment. The overall increase for Proposition 98 in the current year is $228 million. As Figure 4 shows, K-12 education's share of this amount is $213 million and the Community College's allocation is $16 million. The amount of funding for other agencies did not change.

The budget proposes $35 billion for Proposition 98 in 1998-99. The shares allocated to the three components remain virtually unchanged from the 1997-98 revised shares. Community College Proposition 98 funding issues are discussed in the Higher Education section of the *Analysis* (please see Section F).

Figure 4

Proposed 98 Allocations

1997-98 and 1998-99
(Dollars in Millions)

	1997-98			1998-99	Change From 1997-98
	Budget Act	Revised	Change	Proposed	Revised
Proposition 98 "Test"	Test 2	Test 2	—	Test 3	—
Total Proposition 98	$32,464.4	$32,692.7	$228.3	$34,681.8	$1,989.1
K-12 Education					
Amount	$29,062.4	$29,275.0	$212.6	$31,037.0	$1,762.0
Share	89.5%	89.5%		89.5%	—
Community Colleges					
Amount	$3,313.6	$3,329.3	$15.7	$3,554.4	$225.1
Share	10.2%	10.2%		10.2%	—
Other Agencies					
Amount	$88.4	$88.4	—	$90.4	$2.0
Share	0.3%	0.3%		0.3%	—

GOVERNOR'S BUDGET PROPOSALS

Prior-Year Proposition 98 Funds

As noted earlier, the budget proposes to allocate to K-12 education $472 million in prior-year Proposition 98 funds. Figure 5 (see next page) shows the major expenditure proposals, which include:

Figure 5

K-12 Education Governor's Budget Proposals For Prior-Year Revenue

(In Millions)

Program Expansions	
School site block grant	$180.0
Digital high school	60.0
Adult education CalWORKs	12.5
Test development	11.0
Year-round schools deficiency	6.0
Standard account code structure	5.5
Oxnard extended year pilot	4.2
Long Beach USD settlement	4.1
Single gender academies	3.0
Low performing schools	3.0
Subtotal	($289.3)
New Programs	
Staff development—mathematics	$40.0
Community policing	10.0
Teacher national board certification	1.0
Salary schedule pilot	1.0
Subtotal	($52.0)
Funding Adjustments	
Property tax shortfall	$136.1
Deferred maintenance	-5.5
Other K-12	0.2
Subtotal	($130.8)
Total	**$472.1**
Sources:	
Proposition 98 "settle-up"	
1996-97	$127.3
1997-98	299.3
Other	45.5
Total	**$472.1**

- $180 million for school site block grants.
- $136 million due to a downward revision of local property taxes.

- $60 million for the High School Education Technology Incentive Grant Program.
- $40 million for a new mathematics staff development program.

We discuss the proposals shown in Figure 5 later in this *Analysis.*

1998-99 Budget Proposals

The budget proposes a General Fund K-12 Proposition 98 funding increase of $1.4 billion for 1998-99. (After including $360 million in higher estimated property tax collections and adjusting for $296 million in one-time expenditures in the 1997-98 budget, total *new* Proposition 98 spending in K-12 education is $2 billion.) Figure 6 (see next page) highlights each of the major changes proposed for K-12 Proposition 98 in the budget year.

The major budget proposals include:

- $507.1 million for enrollment growth, based on a projected ADA increase of 1.73 percent in 1998-99.
- $657 million to provide a 2.22 percent cost-of-living adjustment (COLA).
- $350 million to buy-out eight staff development days.
- $135 million to expand the deferred maintenance program.
- $123.5 million to expand child care programs.

We discuss the details of these proposals later in this *Analysis.*

PROPOSITION 98 SPENDING BY MAJOR PROGRAM

Figure 7 (see page 13) shows Proposition 98 spending for the major K-12 programs. Revenue limit funding accounts for $21.3 billion in 1998-99, or about 72 percent, of total Proposition 98 expenditures. The state General Fund supports about 58 percent of revenue limit funding, and local property taxes provide the remaining 42 percent.

Except for revenue limits, the largest K-12 program is special education. Special education funding is expected to increase by $104 million in 1998-99. The class size reduction program, started in 1996-97, will be the second largest categorical program in 1998-99, with proposed expenditures of $1.5 billion. Funding for other categorical programs within the categorical mega-item is expected to increase by $109 million due to the provision of growth and COLA.

Figure 6

Governor's K-12 Budget Proposals (General Fund) 1998-99 Proposition 98

(In Millions)

1997-98 (revised)	**$20,194.4**
Enrollment Growth	
Revenue limits	$359.6
Categorical programs	147.3
Subtotal	($506.9)
Cost-of-Living Increases	
Revenue limits	$474.0
Categorical programs	183.0
Subtotal	($657.0)
Funding Adjustments	
Child care	$44.0
Voluntary desegregation	19.3
Other	1.2
Subtotal	($64.5)
Program Expansion	
Staff development day buy-out	$350.0
Deferred maintenance	135.0
Child care	123.5
Digital high school	26.0
Staff development programs	20.9
Test administration	20.2
High-risk youth	20.0
Other	14.9
Subtotal	($710.5)
New Programs	
Deficit factor buy-out	$52.9
Remedial summer school, grades 3 - 6	10.0
Zero tolerance	6.2
Subtotal	($69.1)
Offsetting Adjustments	
One-time funding in 1997-98	-$296.1
Property tax growth	-360.3
Subtotal	(-$656.4)
1998-99 (proposed)	**$21,546.0**
Change From 1997-98 (revised)	
Amount	$1,351.6
Percent	6.7%

Figure 7

Major K-12 Education Programs Funded by Proposition 98 General Fund

1997-98 and 1998-99
(Dollars in Millions)

	Estimated 1997-98	Proposed 1998-99	Change From 1997-98	
			Amount	Percent
Revenue Limits				
Schools and counties	$20,505.8	$21,332.8	$826.9	4.0%
Local revenue[a]	8,709.8	9,062.6	352.8	4.1
Subtotals, revenue limits	($11,796.0)	($12,270.2)	($474.2)	(4.0%)
Mega-Item				
Desegregation	$588.9	$613.9	$25.0	4.2%
Economic impact aid	384.9	401.2	16.3	4.2
Home to school transportation	502.0	523.4	21.3	4.2
School improvement	378.6	394.7	16.1	4.2
Instructional materials	165.1	172.1	7.0	4.2
Other programs	552.9	576.4	23.5	4.2
Subtotals	($2,572.4)	($2,681.6)	($109.2)	(4.2%)
Other Programs				
Special education	$2,027.2	$2,130.8	$103.6	5.1%
Class size reduction	1,488.5	1,546.1	57.6	3.9
Child development	621.1	803.2	182.1	29.3
Adult education	475.3	498.0	22.7	4.8
ROC/P	292.6	309.5	16.9	5.8
Summer school	164.9	180.8	15.9	9.6
Mandates	137.2	140.9	3.7	2.7
Staff development day buy-out	50.0	400.0	350.0	700.0
Digital high school	50.0	76.0	26.0	52.0
Deficit factor buy-out	—	52.9	52.9	n/a
Deferred maintenance	—	135.0	135.0	n/a
Other	519.1	320.9	-198.2	-61.8
Subtotals	($5,826.0)	($6,594.2)	($768.3)	(13.2%)
Totals	**$20,194.4**	**$21,546.0**	**$1,351.6**	**6.7%**

[a] Local revenue is from local property taxes and is included to show the full amount provided for revenue limits.

BUDGET ISSUES

K–12 Education

K-12 PRIORITIES

The budget contains a number of major issues that raise the question of the appropriate role of the state in the design and operation of California's K-12 education system.

The *1998-99 Governor's Budget* proposes to spend $30.8 billion in state and local Proposition 98 support for K-12 education. This represents an increase of $2 billion, or 6.9 percent, from the amount included in the *1997-98 Budget Act*. The budget proposes to (1) provide growth and cost-of-living-adjustment (COLA) funds to virtually all programs and (2) spend $800 million to support state initiatives to improve the K-12 system. Figure 8 (see next page) illustrates the budget's proposed allocation of K-12 funds for 1998-99.

BUDGET POSES MAJOR K-12 ISSUES

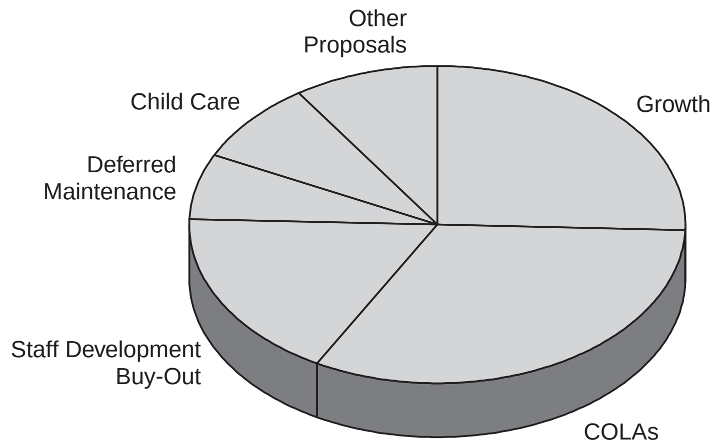
The budget proposal is substantially more complicated than Figure 8 suggests. Indeed, the *Governor's Budget* would continue the recent trend of expanding the state's role in education significantly. The budget does this by maintaining tight control over how new Proposition 98 funds are used and by proposing major changes in the governance of K-12 schools. Specifically:

- ***The Budget Does Not Provide Any "Real" Increase in District General Purpose Funding.*** Except for the 2.2 percent COLA, districts will have no new funds to meet locally identified needs. Instead, the budget proposes to use more than $800 million in

Figure 8

Proposed Use of New Proposition 98 Funds

1998-99



Proposition 98 funds to expand 21 existing programs and create four new programs. The administration also proposes to direct districts to use new lottery funds for a specific purpose (textbooks).

- ***The Budget Proposes Several Initiatives That Could Result in Significant Unfunded Cost Increases for School Districts.*** For instance, the Governor proposes to lengthen the school day by excluding the time between class periods (known as "passing time") from district calculations of mandated instructional minutes. The budget includes no funding to districts to meet the potential additional costs that this new state policy could create. Thus, in a sense, the Governor proposes to spend *district* funds to meet administration goals.

- ***The Governor Proposes to Override Local Control Over Standards for Adequate Student Progress.*** The Governor, for instance, proposes to end "social promotion"—the practice of advancing a student to the next grade even though the student is not proficient at the skills and knowledge expected of students at that grade. This proposal would inject the state into a policy area that, currently, is controlled by school district governing boards, teachers and parents.

- ***The Budget Would Allow Some Parents to Opt Out of the Public System Altogether as a Means of Finding a Better Education for Their Children.*** The budget proposes to use vouchers to allow up to 15,000 students who attend low-performing schools to attend another public or private school. By ceding to parents the ability to direct state funds to any private school, the budget proposes a major change in the governance of K-12 schools.

STATE'S ROLE IN K-12 EDUCATION HAS INCREASED OVER TIME

While each of these proposals may be debated on its merits, what is lacking is a larger context for these changes. Unfortunately, because there is not a consensus "blueprint" for improving K-12 schools, there is no baseline against which to compare the Governor's recent proposals. Two key questions need to be addressed: (1) what is the appropriate role of the state in establishing a K-12 system that results in the highest quality education and (2) how do the budget proposals reenforce this division of state and local responsibilities. We think this discussion is essential.

The budget proposals continue a trend of increasing state activity in K-12 education. Under the Constitution, responsibility for K-12 education rests with the state. Until the 1970s, however, governance and funding of schools was primarily local. The state's role was limited primarily to providing additional funding through K-12 categorical programs. In the 1970s, school governance was altered with the enactment of state collective bargaining laws, and school finance became a state issue with the Serrano decision (funding equalization) and Proposition 13 (property tax limitation).

Thus, as the 1980s began, school districts had lost a significant amount of control over important aspects of school operations. As schools lost control over finances, the state gained control. And, with the financial control came accountability—state decision-makers needed to justify to voters that funds were used wisely. This need for accountability tends to bias state discussions over the K-12 budget toward specific categorical approaches and away from providing general purpose funding increases to districts to address their own priorities.

The 1990s have seen the state continue to expand its jurisdiction over the K-12 system. Proposition 98 has furthered this trend. By requiring the state to spend a minimum amount on education, Proposition 98 has moved the state budget process away from discussing *how much* money schools need and, instead, has become focused on *how* to spend the "required" amount. As a result, Proposition 98 has further encouraged the budget process to concentrate on categorical program proposals.

Data on the composition of school spending show that spending on categorical programs has increased faster than general purpose support for schools. In 1982-83, 77 percent of state and local spending on K-12 was provided through revenue limits—the general purpose funding schools receive for each student. The other 23 percent of K-12 funding was spent on categorical and other K-12 programs. The 1998-99 budget proposes to spend 70 percent of K-12 funding on "base" revenue limits (excluding certain categorical programs that are funded through revenue limits). This 7 percent difference may seem small, but it represents more than $2.1 billion that would be in general purpose funding in 1998-99 had the state continued to spend 77 percent of state and local spending on revenue limits.

State Needs Long-Term K-12 Framework

A long-term framework would provide the Legislature with a reference point for understanding appropriate roles of the state and school districts in governance and financing of the K-12 education system.

This long-term trend toward increasing state intervention in K-12 finance and policy has a significant impact on the effectiveness of the overall system. Yet the proper roles of the state and the local school district have never been identified. We question, for instance, whether state intervention in detailed matters of local administration and policy result in the most effective education system. The categorical approach to school finance assumes that the state can "fine tune" educational practices through its funding system in order to increase student achievement. The evidence from educational research, however, suggests the opposite is true—that "one size" state policies do not "fit all" district needs. In fact, the categorical approach to educational funding risks *reducing* the impact of additional funds. When the state substitutes its judgment of what K-12 funds should buy, it short-circuits the local process for determining how additional funds best translate into improved student achievement.

Similarly, state intervention creates problems of governance and accountability. Who should be held accountable for the successes and failures of the K-12 system when several levels of government are responsible for managing K-12 resources? A locally governed, locally financed system provides clear accountability for outcomes and a direct way for voters to hold local decision-makers accountable. Undue state intervention blurs responsibility at the local level. Additionally, voters in any particular school district have no direct way to hold state decision-makers accountable for K-12 outcomes.

We think the state should develop a framework for K-12 education that establishes a guide for its decisions on school finance and other policy matters. This framework would identify the appropriate state and local role in the design and operation of the K-12 system. In our view, the framework would place the state in control of determining the broad design features of the K-12 system. Local school districts would have substantial flexibility within this system, maintaining control over major policy and budget decisions. This would focus the state's attention on the following areas.

Governance. Effective governance at the local level is crucial to a well-functioning locally controlled education system. The state would assure that there is an appropriate balance of interests at the local level. For instance, the state would need to ensure that the system's clients—parents and the business community—have sufficient voice in decision-making. Other governance issues that would be monitored by the state include (1) the impact of the collective bargaining process on the ability of districts to allocate funds in a way that best balances the educational needs of students with teacher compensation and working conditions and (2) whether districts may be too large or too small to provide efficient financial operations and an accessible governing process.

Funding. Funding is clearly a state concern because of past court decisions and voter-approved initiatives. That does not mean that the state must make most funding decisions, however. The state needs to ensure that funding levels are adequate and distributed fairly and that schools and school districts have enough funding flexibility to meet high-priority local needs. In addition, creating new local funding mechanisms (such as the ability to increase local property taxes) would provide school boards with greater financial flexibility and accountability.

Minimum Educational Standards. The state needs to establish an accountability system that provides a clear sense of what schools are producing. This is essential for both local voters as well as state decision-makers. The state, however, needs to focus standards on critical system inputs and outputs. Inputs could include student-teacher ratios, measures of school safety and facility adequacy, and the amount of time students actually spend learning (as opposed to time spent in recesses, assemblies, and other non-academic activities). Outputs could include test scores, dropout rates, college attendance rates, and employment rates and wages of high school graduates. These standards should create an incentive for the school districts to improve. Therefore, as part of the framework, the state would need to create consequences for schools that cannot meet minimum state standards, including state receivership.

Oversight and Information. The state can exert significant influence over the K-12 system through monitoring its operations and by providing useful data to school districts. State monitoring of the success of school districts in achieving the desired inputs and outputs is an important part of making state standards meaningful. In addition, the state as an information broker can encourage districts to adopt policies that are most effective in improving student achievement.

Creating this long-term framework would not be a simple task. However, it would be well worth the effort. The Master Plan for Higher Education has been guiding the development of higher education in California for more than 30 years. The value of the plan is that it provides a reference point for understanding the critical design features of the higher education system, such as the roles of the three segments (University of California, California State University and community colleges). The plan is not static—the Legislature periodically reviews and refines the Master Plan, reshaping elements as needs and resources change. We think a similar long-term framework for K-12 would provide similar benefits.

Develop Information on Future Funding Options

We recommend the Legislature appropriate $2 million in federal Goals 2000 funds to develop four demonstration programs that would provide information on the relative costs and benefits of major K-12 programs.

No matter which level of government makes the major decisions about the best use of K-12 resources, there is a pressing need for better information about the effectiveness of different approaches to improving schools. The state—either to improve its own budget decision making or in the role of supporting school districts with data and research—should play a central role in developing this information.

At the current time, there are little good data on the impact of different services and programs on student achievement. Because of the important role the state currently plays in determining how K-12 funds are used, this lack of data requires the Legislature to make decisions with little information about the consequences of its actions and the relative effectiveness of the available options.

As we discuss later in this chapter, for instance, there is little solid evidence to support the budget's proposal for a longer school year. To be fair, there is very little evidence at all on the question. The research we could find on the issue suggests that it's unlikely the proposal will have a measurable impact on student achievement.

Similarly, there are very little data on the effectiveness of other K-12 programs the Legislature could fund as an alternative to the longer year proposal. We considered two major possibilities: additional class-size reduction (grades 4 through 6) and a longer school day in middle and high school.

We also reviewed the research on the impact of school vouchers on student achievement. The results were the same as our other research reviews—very little solid data. It is possible that the Governor's proposal for Opportunity Scholarships would make an important difference to students attending low-performing schools. Having an option to "exit" the public system may allow students who leave to get a better education and spur improvements in the quality of education for those who stay behind. On the other hand, it is also possible that markets would not function effectively in this case—private schools may be unwilling to locate in poor neighborhoods, for instance, which would limit the choices available to parents.

Legislature Should Create Demonstration Programs

What is the best way for the Legislature to spend new education funds? Can vouchers be a useful tool in improving the K-12 system? These questions will not be answered without a systematic attempt to evaluate the costs and benefits of the most promising proposals.

For the most part, this is unlikely to happen without government providing the impetus and funding for such research. Demonstrations are costly undertakings—usually more than most districts could afford. The benefits of research, however, are available to all school districts. As a result, this type of research usually is supported by a higher level of government, primarily states and the federal government.

The class-size reduction demonstration, conducted in Tennessee, illustrates the benefits of such programs. Tennessee sponsored a long-term demonstration program testing the impact of smaller class sizes in grades K-3. The program provided high quality data on the impact of smaller classes for different types of students. Indeed, if the State of Tennessee had not invested substantial resources into its evaluation, there would have been little good data to support California's program.

To begin the process of evaluating the state's future options regarding K-12 programs, we recommend the Legislature establish four demonstration programs. These demonstration programs would allow the state to measure the impact of major programs designed to improve the quality of K-12 education. Each demonstration would be relatively small, with perhaps 10 to 20 schools participating in the program. Control groups would be created so that the impact of the new services could be easily measured. We suggest the Legislature consider the following four programs.

Class Size Reduction—Grades 4 Through 6. As schools complete the implementation of class size reduction in grades K-3, parents and teachers will begin to ask whether the state will create a program for smaller classes in the intermediate grades. Smaller classes are intuitively appealing to parents. Smaller classes in grades 4 through 6 also make sense from a teacher perspective. Intermediate grade teachers teach up to 32 or 33 students, while the K-3 teacher next door works with only 20 students. Existing data on the impact of smaller classes in grades 4 through 6 suggest little impact, however. This also was true of research findings on smaller classes in grades K-3 before the Tennessee demonstration program. A good evaluation, similar to the Tennessee demonstration, would yield valuable data on the question. We suggest trying two minimum class sizes—20 and 24 students.

Longer School Day—Grades 7 Through 12. A six- or seven-period day is standard in most middle and high schools in California. Unfortunately, this permits students to take little more than the core curriculum—math, language, science, history, and gym use up five of the six/seven class periods. As a result, students have little chance to explore other subjects, such as foreign language, computer science, music, art, geography, and vocational education. These types of "enrichment" courses get squeezed out of the school day. For some students, these enrichment courses are the main attraction of school.

In addition, the short day means students get out of school early, sometimes with little home or school supervision. If the school day ends at 2:15 in the afternoon, students have at least three hours before working parents begin returning home. Therefore, extending the school day would permit these older students a broader curriculum and reduce the amount of unsupervised time after school for students whose parents are not at home.

The demonstration program would measure the cost and impact of longer school days in middle and high schools. Measuring costs is pretty straight-forward. Benefits would include the impact of additional courses on student achievement, dropout rates, and other educational indicators. The effect of the longer day on juvenile crime in the area would be another potential impact.

Longer School Year. As we discussed above, there is not much good data on the impact of a longer school year. While we are currently funding a study of a longer school year in high school (Oxnard), we do not think this demonstration will provide a good indication of the impact of a *statewide* initiative to increase the length of a longer year. A larger demonstration program would gauge the extent to which districts of different sizes and types would use the additional time productively. For this reason, we suggest a separate demonstration program to test the impact of a longer school year in all grades.

Vouchers for Students Attending Low-Performing Schools. We think the idea of vouchers has sufficient merit that the Legislature should sponsor a demonstration program as a way to understand the costs and benefits of the concept. A demonstration program would select a small number of schools where students would be given the opportunity to apply for a voucher. As part of the program, researchers could address a number of important questions:

- What choices do voucher-holding students have?
- Do they fare better than similar students who remain at the school?
- How does the school respond to this type of competition?
- Do special education students seek and use vouchers?

There also are a number of legal questions that would have to be addressed before a demonstration program of the impact of vouchers could begin. At the current time, these questions include (1) whether public funds could be used for the vouchers? and (2) whether religious schools could receive funding through vouchers?

Provide Start-Up Funding. The demonstration programs would require a year of development—time to design the programs (with evaluations as part of that design), address legal and financing questions, and select schools to participate. Therefore, we recommend the Legislature appropriate $2 million in federal Goals 2000 funds to begin the design, planning, and initial implementation of the four demonstrations. This would provide support for state and local costs in the budget year so that the demonstration programs could begin operation in 1999-00.

LAO Outlook Indicates Fewer Proposition 98 Funds

Our projection of available Proposition 98 funds indicates that the Legislature will have $196 million less than included in the Governor's Budget for 1998-99.

Figure 9 details the Proposition 98 amounts available for 1997-98 through 1999-00 under the Governor's budget forecast of the Proposition 98 minimum funding guarantee and under the forecast developed by the Legislative Analyst's Office. In 1997-98, we forecast no difference in Proposition 98 funding. While we project higher General Fund revenues than the administration for 1997-98, this increase does not translate into any increase for K-14 education. Since Proposition 98 is in "test 2" during 1997-98 (which does not use General Fund revenues to determine the minimum guarantee), the formula does not generate any additional Proposition 98 spending requirements.

Figure 9

LAO and Governor's Budget Proposition 98 Forecasts[a]

(In Millions)

Forecast	1997-98	1998-99	1999-00
Governor's budget	$32,693	$34,682	$36,529[b]
LAO	32,693	34,486	36,320
Difference with budget	**$0**	**-$196**	**-$209**

a Assumes funding at the minimum required under Proposition 98. All estimates assume passage of the Opportunity Scholarship program, which reduces K-12 attendance by 15,000 students.

b LAO long-term extrapolation of economic and revenue projection underlying the *1998-99 Governor's Budget* proposal.

As Figure 9 shows, we estimate that Proposition 98 funding will be $196 million *lower* than indicated in the Governor's budget for 1998-99. Even with our lower estimate of the guarantee, Proposition 98 funding is expected to increase $1.8 billion from the level provided in the *1997-98 Budget Act*.

Why our Proposition 98 estimate is slightly lower is a complicated story. Proposition 98 is based on "test 3" in 1998-99, where additional revenues *can* increase the minimum guarantee. Initially, however, it does not, because our estimate of the increase in 1997-98 General Fund revenues is greater than our projected increase in 1998-99 General Fund revenues. This difference in the amount of additional revenues in the two years creates a smaller net change in General Fund revenues. Because "test 3" uses the *change* in General Fund revenues to determine the guarantee, the formula generates a smaller Proposition 98 guarantee.

This is another demonstration of the unpredictability of the Proposition 98 formula and how the formula does not adequately balance school funding requirements with the state funding situation. At the time the 1997-98 budget was adopted, the state General Fund condition was fairly "tight," yet the Proposition 98 formula required large additional education expenditures (which further complicated the state's budget picture). Then in 1998-99, when the state's fiscal position is much better, the Proposition 98 formula results in moderate increases.

Legislature Faces Major Trade-Offs

Three "big picture" issues will drive the Legislature's actions on the overall Proposition 98 expenditure plan.

As we discussed above, once funds are allocated for growth and COLA, the budget proposes to spend about $800 million to support new or expanded state activities. Before the Legislature can make any decisions on allocating Proposition 98 funds for K-12 education in 1998-99, it must first resolve three major issues that will significantly affect the amount of "available" funds remaining. These issues involve such large amounts of funds that the rest of the Governor's K-12 spending proposals—and any legislative proposals that are contemplated—hinge on the outcome of the three issues. These three issues are:

- ***The Proposition 98 Minimum Guarantee.*** Based on the current split of Proposition 98 funds between K-12 education and community colleges, we estimate the Governor's budget overstates by $176 million the amount of Proposition 98 funds for K-12 in 1998-99. This is due to our lower estimate of the Proposition 98 guarantee in the budget year.

- ***The Appropriate K-12 COLA for 1998-99.*** Although the budget proposes a 2.22 percent COLA, statute calls for a 4 percent COLA in the budget year. Providing the higher amount would require an additional $530 million in Proposition 98 funding. We discuss this issue later in this section of the *Analysis.*

- ***The Governor's Longer School Year Proposal.*** This one proposal accounts for $350 million in new funds in the budget year. This issue also is discussed in detail later in this section of the *Analysis.*

With the $176 million drop in the amount available to K-12 schools in 1998-99, funds for new or expanded programs fall from about $800 million to $625 million—still a substantial sum. One central implication of the lower funding level is that the amount needed to fund the statutory COLA or the longer year program proposed by the Governor constitutes a very large proportion of available funds. In fact, if the Legislature chooses to provide the statutorily required COLA (4 percent), there would be only $100 million in funds left with which to support other programs in K-12. Funding the longer year program would also require the Legislature to reject many of the other proposals made by the Governor.

Balance State and Local Funding Needs

We recommend the Legislature develop the K-12 budget based on its long-term goals for public education and the relative roles of the state and local school districts in the governance of schools.

Despite our long-term concerns discussed above, the Legislature faces the immediate question of how best to appropriate funds in the *1998-99 Budget Bill.* We have recommended in the past that the Legislature ensure that its budgetary decisions balance the needs of state and local decision-makers as well as the state's long-term goals for K-12 education. We think this balance continues to be the central issue in the state K-12 budget.

Figure 10 displays our recommended guidelines for K-12 education funding priorities. The first two guidelines focus on the existing K-12 budget. Current program costs—including funding for growth in the student population, COLAs, state mandates, and other funding commitments—should take top priority for funding. These "base" programs, however, also should be assessed and refined as needed to make sure they (1) are as effective as possible and (2) further the state's K-12 goals.

After meeting basic program costs, any additional Proposition 98 funds should be used to meet both state and local funding needs. In California's divided system of K-12 school governance, the Legislature, the Governor, and local school boards all play a role in identifying and funding school priorities. Under this system, it is our view that the state and local school boards each should determine the priorities over about half of available new K-12 funds.

For that reason, our guidelines call for using about half of available funds to increase and equalize district revenue limits. With the remaining funds, the state should pursue programs for which there is a strong case for state intervention. We discuss our specific recommendations below.

Figure 10

LAO Guidelines for Establishing K-12 Education Funding Priorities

✔ ***Fund the Continuing Costs of the Current Program.*** The state should ensure that funding for growth, COLAs, and other financial commitments is provided.

✔ ***Review and Reform Current Programs Consistent With Long-Term Goals.*** The Legislature should periodically review whether existing programs further the long-term goals of the state.

✔ ***Balance State and Local Funding Needs.*** Once existing programs are adequately funded, the allocation of additional funds should reflect the shared state and local governance of the K-12 system.

- ***Increase and Equalize Local Revenue Limits.*** About half of any additional funds should increase and equalize local revenue limits, thereby allowing school districts to address their priorities.
- ***Support State Improvement Efforts.*** The remaining funds should support state-directed uses based on a long-term plan of reform.

OPTIONS FOR 1998-99 FUNDS

Our alternative budget differs significantly from the budget's proposed plan.

Figure 11 (see next page) displays the Governor's proposal and the LAO's recommendations for the 1998-99 K-12 budget. The Governor's budget request is based on the amount of Proposition 98 funds identified in the budget. Our recommendations are based on the LAO projection of the minimum guarantee, which reduces available funding by $176 million.

In addition, our recommendations reflect an increase of $91 million in Proposition 98 funding that is connected to the Governor's proposal to create Opportunity Scholarships (or vouchers) for 15,000 students. The budget assumes that all 15,000 students would use the scholarships to attend private schools. Because Proposition 98 funds may only go to public schools, the budget removes the 15,000 students from the Proposition 98 calculation. This reduces the minimum guarantee by $91 million in the budget year. Because we recommend the Legislature first test the impact of vouchers before implementing a program as large as proposed

Figure 11

1998-99 K-12 Proposition 98 Increases LAO and Governor's Budget Proposals

(In Millions)

	Governor's Proposal	Legislative Analyst's Proposal
Fund the continuing costs of the current program		
Base programs and adjustments	$19,597.8	$19,597.8
Enrollment growth	540.2	540.2
Cost-of-living increases	623.4	623.4
Class size reduction "step" increase	—	77.3
Pay program deficiencies and other commitments		
Mandates	$6.6	$7.8
Child care	44.0	44.0
Voluntary desegregation	18.9	18.9
Digital high school	26.0	26.0
Review current program consistent with long-term goals		
Increase revenue limits	—	$150.2
Child care augmentations	$138.1	138.1
PERS rate adjustment	-59.0	—
Longer day/longer year incentive	—	0.2
Support state improvement efforts		
Deferred maintenance	$135.0	$135.0
High-risk youth education	20.0	10.0
Assessment	27.8	7.6
Beginning teacher support and assessment program	16.1	10.0
Reject other proposed augmentations		
Staff development day buyout	$400.0	—
Opportunity scholarships	-58.0	—
Deficit factor buyout	52.9	—
New grade 3-6 summer school	10.0	—
Zero tolerance	6.2	—
Proposition 98 Reserve	—	$75.0
Totals	**$21,546.0**	**$21,461.5**
LAO adjustments to Proposition 98		
LAO forecast	—	-175.9
Opportunity scholarships	—	91.4
Total Adjustments	**—**	**-$84.5**

in the budget (see our discussion below), our alternative budget "adds back" this amount. The net effect on Proposition 98 funding is that we are only $85 million lower than the Governor's budget.

The amounts in Figure 11 represent most of the proposed K-12 increases for 1998-99. Not shown are several relatively small proposals with which we take no issue. Since we also make a number of recommendations later in this section, we include these changes in Figure 11.

The LAO recommended plan departs from the Governor's plan more than in past years. As Figure 11 displays, we recommend approval of all the budget's proposed COLA increases and those increases requested to keep previous state commitments. We also propose to spend $77 million that is not included in the budget to maintain K-3 Class Size Reduction funding at the average statewide cost and $1.2 million for a mandated cost we expect will come due in the budget year. We also recommend approval of the proposed $135 million increase in the deferred maintenance program.

In the area of new or expanded school improvement programs, our alternative uses available funds quite differently. In part, this was caused by our lower estimate of Proposition 98 funding for 1998-99. In addition, our alternative does not include funding for the longer school year. The Governor's budget earmarks $400 million for this program (a $350 million augmentation).

Our alternative plan also includes proposals to: (1) increase local revenue limits by $150 million, (2) eliminate the revenue limit adjustment that results from changes in Public Employees' Retirement System rates (at a cost of $59 million), and (3) eliminate the "deficit" in county office of education and other school district programs without providing new funding, for a savings of $53 million.

Below, we discuss in more detail several of the elements of our alternative plan. Other differences are discussed in separate sections later in this chapter.

Create a Proposition 98 Reserve

We recommend the Legislature set aside $75 million for a Proposition 98 reserve to protect against over-appropriating the minimum guarantee.

In the years after Proposition 98 was passed by voters, the Legislature created a reserve account to protect the state in the event the projections of General Fund revenues assumed in the budget were too optimistic.

During the early 1990s, a reserve was not created and, as a result, the state over-appropriated the minimum funding guarantee several times.

The Proposition 98 guarantee is hard to predict. Changes in the growth of state revenues, property taxes, and population can dramatically affect the General Fund share of the guarantee. For instance, our forecast for the current and budget year shows higher growth in General Fund revenue compared to the Governor's budget, but the calculated guarantee for 1998-99 is less than the Governor's projection.

A Proposition 98 reserve provides the Legislature with some measure of protection against over-appropriating the minimum guarantee without reducing amounts already provided to schools. When the reserve is not needed, the funds would be available as "settle-up" funds in the following year to support one-time programs, such as block grants or deferred maintenance.

Therefore, to create a buffer from an unanticipated reduction in the Proposition 98 minimum guarantee, we recommend the Legislature set aside $75 million as a Proposition 98 reserve.

Approve the 2.2 Percent COLA

We recommend the Legislature approve the proposed trailer bill language to change the way K-12 cost-of-living adjustments (COLAs) are calculated. This would result in a 2.2 percent COLA for schools in 1998-99.

Current law requires the Department of Finance (DOF) to use the inflation index for state and local government purchases as the annual COLA for K-12 schools. Each year, the budgeted COLA is calculated, according to Education Code Section 42238.1, as the annual change in that index over the prior two years. In most years, this is a straight-forward calculation.

It becomes more complicated when the inflation index is revised. The Education Code requires DOF to calculate the COLA by dividing the prior-year *revised* index by the *unrevised* index of a year earlier. This is the case for 1998-99. Due to revisions in the index, the statutory formula calls for a 4 percent COLA.

The budget proposes trailer bill language that would delete the requirement to compare revised data with prior-year unrevised data. Instead, the trailer bill language would use only revised data (when the inflation index is revised) so that COLAs reflect the best estimate of inflation that occurred during the past year. This change would result in a

1998-99 COLA of 2.22 percent. (Providing the full 4 percent COLA in 1998-99 for most K-12 programs would cost an additional $530 million.)

Change Is Appropriate. We recommend the Legislature approve the proposed trailer bill language because the proposal more accurately reflects inflation that has occurred over the past year. In fact, using the current statutory formula to calculate K-12 COLAs would compensate schools for inflation that has not actually occurred.

The counter-arguments to the proposed change appear to be: (1) a higher-than-necessary adjustment in 1998-99 helps to compensate for past-year "shortfalls" and (2) there is some type of bias in using "revised-to-revised" numbers. We could not find any evidence to support these arguments.

- ***Schools Have Been Adequately Compensated for Inflation in the Past.*** Figure 12 displays, for 1992-93 through 1997-98, the COLAs as they were calculated each year for the budget and actual inflation. While the figures differ marginally from year to year, the net change over the six years is almost identical. Consequently, there is no need to provide extra COLA compensation in 1998-99.

- ***The Proposed COLA Calculation Method Seems Fair.*** The proposed COLA calculation would use a formula that is almost identical to the current community college inflation adjustment. We would be concerned if we detected a systematic bias in this calculation—that is, one that resulted in COLAs that were too high or too low over the long-run. We did not, however, find any evidence of such a bias.

Figure 12

Budgeted and Actual Inflation Adjustments

1992-93 Through 1997-98

	Estimate Adopted In Each Budget Act	Actual Inflation
1992-93	2.74%	2.61%
1993-94	1.92	2.36
1994-95	3.23	2.33
1995-96	2.73	2.50
1996-97	3.21	3.46
1997-98	2.65	2.86
Cumulative Increase	**17.6%**	**17.2%**

Based on these findings, we conclude that the trailer bill language proposes a COLA that more accurately reflects actual inflation than the current statutory formula. Therefore, we recommend the Legislature approve the budget proposal. This would provide a 2.22 percent COLA in 1998-99.

Provide Step Adjustment for Class Size Reduction

We recommend the Legislature increase support for class size reduction by $77.3 million to reflect increases in district salary costs in 1998-99.

The Governor's budget proposes $1.5 billion for the class size reduction (CSR) program, an increase of $57.6 million over the revised 1997-98 level. The increase includes $24 million for growth and a $33.6 million COLA. This program was introduced by the Governor and Legislature in 1996-97 to reduce average class sizes in kindergarten through grade 3 from 28.6 students to no more than 20.

Almost all districts participate in the program, implementing half or full day programs in one or more of the K-3 grades. Schools with half day programs receive $400 per participating student and those with full day programs receive $800 per student. The amount provided for class size reduction roughly equals the average cost of the program.

In our *1997-98 Analysis* we commented that the long-term cost of class size reduction would rise over time since many of the teachers hired for class size reduction were new teachers. New teachers generally start at the bottom of the salary schedule, rather than the statewide average. Teachers hired at the beginning of the program have moved up the salary schedule, increasing teacher salary costs for districts. The proposed class size reduction augmentations in the budget do not provide sufficient funding for these salary increases.

We feel the state needs to maintain funding at a level sufficient to meet the average district's costs. Failure to do so will shift to districts the higher cost of the program, requiring districts to redirect funds from other programs. Therefore, to fund salary step adjustments that are built-in to most district pay schedules, we recommend increasing CSR funding by 5 percent, or $77.3 million.

Additional Mandate Costs Likely

We recommend the Legislature provide $1.2 million to support school district claims for the costs of the law enforcement agency notifications mandate.

Current law requires school districts to notify law enforcement agencies of two types of pupil behavior: (1) the possession or sale of narcotics and other controlled substances and (2) the possession of weapons (for example, guns and knives) on school grounds. The Commission on State Mandates determined the mandated local costs of these notifications total $1.2 million in the budget year. In addition, $4 million is needed to satisfy claims for this program for 1994-95 through 1997-98.

The Governor's budget does not include funding for this mandate. Because the state is obligated to pay these claims, we recommend the Legislature provide $1.2 million to fund the costs of the mandate in 1998-99. We also recommend that the Legislature provide $4 million in one-time funds to pay for the prior-year claims.

Opportunity Scholarships

We recommend the Legislature delete this item from the budget for a net cost of $39 million in non-Proposition 98 General Fund monies, because the costs and benefits of a voucher program have not been established.

The Governor's budget proposes $52.2 million from non-Proposition 98 General Funds, to provide educational vouchers to 15,000 students attending low-performing public schools. These students would be allowed to use their voucher towards attending a public or private school. The proposal sets the amount of the voucher at $3,500, or equivalent to 90 percent of the statewide average per student revenue limit of $3,890.

The proposal requires a set of changes to the budget.

- First, the budget removes 15,000 students from the Proposition 98 calculation, for a General Fund savings of $91 million. (As shown in Figure 11, the budget also removes the 15,000 students from the calculation of school district *revenue limits*, which reduces Proposition 98 spending in the budget year by an estimated $58 million.)
- Second, the budget proposes to spend $52 million in General Fund monies for the private school vouchers. As a result of these transactions, Proposition 98 is $91 million *lower*, and the General Fund *saves* $39 million.

Although the details of the scholarship program were not available, we have identified the following concerns with the general outlines of the proposal:

- ***Transfers Are Already Permitted.*** Students participating in the program would be allowed to attend any public school or a private school. Students who choose to attend an alternative *public* school are already able to do so without a voucher, as the state currently allows districts to claim funding for students from other districts.

- ***Selection Criteria Unclear***. According to the Governor's proposal, students attending schools with achievement tests in the bottom 5 percent across the state would qualify for vouchers. We were unable to obtain information on how the bottom 5 percent would be determined.
- ***Is Voucher Amount Sufficient?*** The budget sets the voucher amount at $3,500 per student. The Department of Finance, however, was unable to provide any information about whether this amount would be sufficient to allow students to attend a private school. This feature is critical to the success of any voucher program.

As we discuss above, the value of vouchers in improving educational choices has not been established. For this reason, we believe a large voucher program, such as proposed in the budget, is premature. Instead, we propose the Legislature initiate a smaller demonstration program that would provide good data on the impact of a voucher program.

Until better data are available on the impact of school vouchers, we recommend the Legislature reject the Governor's proposal. This would require a net $39 million General Fund increase.

Delete Summer School Augmentation

We recommend the Legislature delete $10 million for remedial summer school programs because the budget already provides schools with sufficient funds for this purpose.

The budget proposes $10 million to establish grants to schools interested in offering remedial summer school classes to improve reading skills of students in grades 3-6. Students would attend summer classes to bring them up to grade level or to a higher level of reading proficiency.

This program would be in addition to regular summer school programs already offered by districts. The budget includes $122.5 million for regular summer school programs in the budget year. Schools are permitted to provide a wide range of instruction, including remedial classes such as those contemplated in the Governor's budget, as part of regular summer school.

As a result, we see no need to augment summer school funding for this purpose. Therefore, we recommend the Legislature delete the $10 million proposed for the new program.

Preserve Local Autonomy Over Expulsions

We recommend the Legislature delete $6.2 million and trailer bill language related to the proposal to require schools to expel most students who are caught on campus or at a school event with unlawful drugs.

The budget proposes trailer bill language to mandate student expulsions when a student is caught with unlawful drugs (except for small amounts of marijuana) at a school or at an off-campus school event. To provide an alternate educational placement for expelled students, the budget proposes $6.2 million for the higher costs associated with those placements. Under current law, schools *may* expel a student for drug-related offense.

In general, we think these types of policies are best left to school districts. Our system of local control allows districts to craft expulsion policies that best meet local needs and preferences. The administration offered no data or other information to justify a statewide policy in this area. We know of no reason why local expulsion policies are not appropriate in this case. Therefore, we recommend the Legislature reject the proposed trailer bill language and delete the $6.2 million for alternative placements.

OPTIONS FOR PRIOR-YEAR FUNDS

We recommend relatively modest changes in the budget's plan for the use of one-time Proposition 98 funds.

As we discussed above, the budget also proposes to spend a significant amount of Proposition 98 funds that are available in the current year. This includes "settle-up" monies from 1996-97 and 1997-98 as well as unspent Proposition 98 funds from previous budgets. Figure 13 (see next page) displays the Governor's budget proposal and our recommendations for the use of these additional funds.

Generally, we recommend the Legislature use the same principles discussed above to determine the expenditure of these one-time funds. We recommend approval of the increases proposed to pay program deficiencies and other commitments. We also recommend the Legislature approve the proposed increase in funding school district revenue limits caused by a reduction in estimated property taxes in 1996-97. We discuss our other recommendations below or in later sections of this chapter.

Figure 13

Prior-Year Proposition 98 Increases LAO and Governor's Budget Proposals

(In Millions)

	Governor's Proposal	Legislative Analyst's Proposal
Pay program deficiencies and other commitments		
Revenue limit increases	$136.1	$136.1
Year-round schools deficiency	6.0	6.0
Deferred maintenance	-5.5	-5.5
Oxnard extended year pilot	4.1	4.1
Long Beach USD settlement	4.1	4.1
Mandates	—	4.1
Other	0.2	0.2
Review current programs consistent with long-term goals		
PERS rate adjustment	—	$53.7
Adult education CalWORKs	$12.5	12.5
Support state improvement efforts		
School site block grants	$180.0	—
School district block grants	—	$188.2
Digital high school	60.0	60.0
Test development	11.0	—
Standard account code structure	5.5	5.5
Single gender schools	3.0	3.0
Reject other proposed augmentations		
Staff development—mathematics	$40.0	—
Community policing	10.0	—
Low performing schools	3.0	—
Teacher National Board Certification	1.0	—
Salary schedule pilot	1.0	—
Totals	**$472.0**	**$472.0**

Provide Block Grants to Districts

We recommend the Legislature delete $180 million for school site block grants and, instead, provide $188.2 million to schools through school district block grants.

The budget proposes providing $180 million for school site block grants. Schools would be able to use this money for high-priority activities they identify. We support block grants as a means of providing one-time funds in the most flexible manner to schools.

We think, however, that the state should provide block grants to *districts*, not individual schools. School district officials have a broader view of the district's needs than those at the school sites and can better set funding priorities based on the district's overall needs. Therefore, we think the block grants could be used more effectively if they were distributed to districts.

In addition, data on the use of past district block grants show that a significant portion of the funds were passed on to school sites by many districts. (These data also show that districts used the block grant funds for deferred maintenance, computers, textbooks, and other one-time costs.) Therefore, it is likely that some portion of any future district block grants also would be distributed to school sites.

For these reasons, we recommend the Legislature change the proposed school site block grants into a district block grants. Because our other recommendations would free-up $8.2 million in one-time funds, we recommend the Legislature increase the block grants to $188.2 million.

Reject Other Policy Initiatives

We recommend the Legislature delete $13 million for two new programs proposed in the budget.

The Department of Finance (DOF) and the Governor's Office of Child Development and Education (OCDE) were unable to provide any details on several of the policy initiatives included in the budget. As a result, we were unable to assess the costs and benefits for the Legislature of these proposals. Therefore, we recommend the Legislature delete the following funds:

Community Policing ($10 Million). These funds would provide one-time grants to local school districts and county offices of education that adopt a community policing approach to school safety. The administration advises that a legislative proposal is under development.

Low-Performing Schools ($3 million). The budgets states that these funds would be used to assist low-performing schools. As above, a legislative proposal is being developed by the administration.

The Legislature can consider funding such requests at such time as a complete proposal is before them.

LONGER SCHOOL YEAR

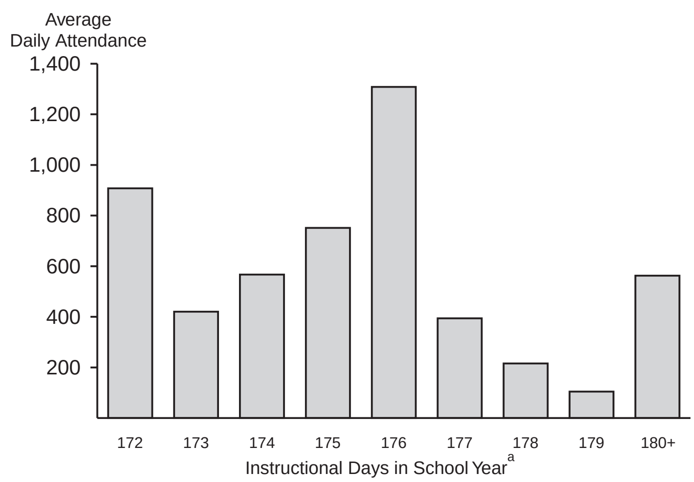
We recommend the Legislature reject the Governor's proposal to lengthen the school year, because more days of the same type of instruction have not been found to improve student achievement.

Current law permits schools to include up to eight staff development days within the 180-day instruction year. Staff development days provide teachers time away from the classroom for planning and training activities designed to improve the quality of education at the school site. Figure 14 shows the number of instructional days provided by California's school districts in 1996-97 (not including staff development days). On average, schools include four to five staff development days within their 180-day school year.

Figure 14

Staff Development Days Shorten School Year

1996-97 (In Thousands)



[a] Instructional days do not include staff development days.

The Governor's budget would substantially alter current law by (1) deleting the Education Code statute authorizing the use of up to eight days of instruction time for staff development, thereby requiring districts to provide at least 180 days of instruction time; and (2) using $400 million for an incentive program giving districts $220 per day for each teacher that participates in staff development activities outside the 180-day school year.

The budget proposal would also eliminate the $50 million staff development buy out program included in the *1997-98 Budget Act* (the budget uses the $50 million to reduce the cost of the Governor's longer-year program). This program gives school districts $220 per teacher for one staff development day if they also add one day to the school year. The current-year program is not mandated. In contrast, the Governor's proposed plan would require that all districts offer at least 180 days.

Little Evidence to Support a Longer Year

Intuitively, adding days to the school year seems like a promising way to improve student performance. Most researchers, however, conclude that the *quantity* of time spent in the classroom is not as important as the *quality* of time spent learning. A school that is ineffective during the first 172 days will remain ineffective during the added days. On the other hand, students attending a school that encourages high achievement will continue to perform well, or may even perform slightly better, with the additional days. A longer school year simply provides students more of the same type of education.

Our review of the research on instructional time found little evidence to support increasing the school year as a means of increasing student achievement. Research suggests that, to maximize the impact of a longer school year on student achievement, schools also must introduce other changes so that the additional time increases the focus on learning. Even with additional changes, longer school years do not always improve student achievement. For example, Indiana adopted several school reform provisions in 1988, including a longer school year. After several years of evaluating student test scores and finding no benefit from the longer year, it rescinded its longer-year program.

The Oxnard Union High School District is conducting a pilot project that includes a longer school year. All students in the district attend school for 195 days. Besides adding days to the school year, the school introduced policies that maximize the instructional focus during the school day by decreasing disruptions to class time and reducing the number of days students miss class to participate in school functions (such as field trips, athletic events, and school productions). The budget proposes providing $4.2 million during 1998-99, or around $500 per teacher for each additional day of instruction, for this project. The project began in 1996-97 and will conclude in 1998-99. Administrators from the district report that an evaluation of the program will be available at the conclusion of the project.

Because we cannot find evidence to support the assertion that lengthening the school year will improve educational outcomes, we recommend the Legislature reject the Governor's longer-year proposal. Instead of focusing on time as the solution to improving schools, we think the Legislature should focus on quality. There are several proposals in the budget that already do this, including new and expanded programs to improve teachers through training and other support services.

We do think it would be useful to understand how different approaches to lengthening the school year affect student achievement. As discussed above, we recommend the Legislature begin demonstration projects in various areas including longer year and longer day (please see the K-12 Priorities discussion). Information from a demonstration project that lengthens the school year would help future decisionmakers to assess the potential benefits of such a proposal.

Legislature Has Other Options

If the Legislature wants to extend the school year, we think there are several ways to improve upon the budget proposal. Specifically, we have the following concerns with the proposal:

- ***The Additional Staff Development Days May Require Some School Districts to Supplement State Funding With Other Local Funds.*** Since the proposed incentive grant amount is based on the average cost of teacher salaries, about half of the districts will receive more than they need (assuming districts pay teachers for these extra days at their average daily salary) and the other half will have less than they need to fund the additional days. As a result, some school districts may have to redirect local funds from other educational activities to pay for the actual district costs of adding staff development days to the school year.
- ***The Proposal Would Encourage Districts to Add Staff Development Days for Relatively Low-Priority Training.*** On average, districts currently use four or five of the eight staff development days allowed by statute. By providing eight days of funding for

training, the proposal encourages districts—especially those districts with costs below $220 per teacher—to provide additional training that districts might otherwise consider unnecessary or low priority. As a result, we question whether the added staff development days would result in the most effective use of funds at the local level. Alternatively, giving districts flexibility over how they use the funds would allow them to focus resources on their highest-priority improvement activities.

In short, the proposed staff development program exhibits many of the characteristics of a categorical program that may *reduce* the effectiveness of spending at the local level. For this reason, if the Legislature wishes to lengthen the school year, we suggest it base a proposal on the following guidelines:

- ***Reduce or Eliminate Existing Staff Development Days.*** The Legislature could *reduce* the number of days allowed by statute or *eliminate* them entirely, as proposed by the Governor. By reducing the days, the Legislature can balance the goals of increasing the length of the school year, while also making some allowance for staff development.
- ***Provide Additional Funds for Staff Development Through Revenue Limit Increases.*** By providing general purpose funds to districts, the Legislature can maximize local flexibility over the use of available funds. This would allow districts to choose between staff development days and other school improvement activities. The flexibility also reduces the likelihood that districts would be required to spend local funds to supplement incentive funding provided by the state.
- ***Legislature's Policy Should Enable Schools to Provide a Minimum Level of Staff Development.*** The Legislature could eliminate the statutes that authorize the current eight staff development days without providing *any* new funding. In that case, however, it is likely that some schools would provide little or no resources for staff development days outside the 180-day year. For this reason, we think any longer-year proposal should provide the resources to enable schools to provide a minimum level of staff development. There is no reason, however, that the Legislature needs to ensure schools have eight days available for this purpose.

Building a longer-year program based on these guidelines would achieve the same goals as the Governor's proposal—extending the school year and providing funding for staff development. For instance, the Legislature could (1) allow two days of staff development *within* the

180-day school year (in effect, increasing the school year by up to six days); and (2) add to revenue limits the equivalent of two days of funding for staff development *outside* the school year. This approach would provide up to four days of staff development along with flexibility to use additional funds for each district's highest-priority improvement programs. We encourage the Legislature to consider these options if it decides to move forward with a longer school year proposal.

REVENUE LIMITS

School district revenue limits provide general purpose support for schools. Revenue limits were established as part of Chapter 1406, Statutes of 1972 (SB 90, Dills) as part of the state's response to the *Serrano v. Priest* state Supreme Court decision of 1971. The revenue limit was calculated to be equal to the per-student amount of general purpose student aid and local property taxes that a district received in 1972-73. The limits do not include state categorical funds (such as state aid for special education or class size reduction), lottery revenue, or any federal aid to local districts. Currently, approximately 72 percent of school support is provided through the revenue limit mechanism.

THREE AGENCY REPORT ON REVENUE LIMITS

The Department of Education, Department of Finance, and Legislative Analyst's Office will soon issue a legislatively mandated report on the revenue limit apportionment process.

In our *Analysis of the 1996-97 Budget Bill*, we commented on a number of complexities with the state's revenue limit system. Based upon this analysis, the Legislature adopted language in the *Supplemental Report of the 1996 Budget Act* directing the State Department of Education (SDE), the Department of Finance (DOF), and Legislative Analyst's Office (LAO) to jointly review the revenue limit apportionment process and make recommendations to simplify it. The stated intent of the review is to (1) make the process more understandable and (2) reduce unnecessary workload at the state and local level.

The report, which was due to the Legislature by November 1, 1997, has taken longer than anticipated. However, we expect that a report containing recommendations based on the joint review of SDE, DOF, and LAO will be available during the spring. We will update the budget subcommittees on the status of the report during the hearings.

INCLUDE PUBLIC EMPLOYEES' RETIREMENT SYSTEM COSTS IN BASE REVENUE LIMITS

We recommend the Legislature adopt trailer bill language to eliminate the proposed Public Employees' Retirement System adjustment. This would increase the cost of revenue limits by $53 million in 1997-98 and $59 million in 1998-99.

The statutory revenue limit formula requires districts to complete many steps to determine what they will ultimately receive. One step in the calculation of revenue limits is the Public Employees' Retirement System (PERS) adjustment. The PERS adjustment reduces revenue limits to account for lower district PERS costs. The budget proposes to reduce revenue limits by $53 million in the current year and $59 million in the budget year due to a recent downward revision in district PERS costs.

How the Calculation Works. The PERS adjustment began in 1981-82. In that year the PERS rate paid by districts for their nonteacher employees was 13.02 percent. In 1982-83, when the rate declined to 12.045 percent, the Legislature recaptured the savings through the revenue limit process.

Over the years, the state continued to recapture savings from lower PERS rates. As the PERS rate and the number of covered employees within each district changes, the PERS adjustment changes. As a result, each year, districts make this adjustment to revenue limits. The PERS rate in 1997-98 is 6.2 percent.

We have identified the following problems with the PERS adjustment:

- ***It Complicates District Financial and Accounting Practices.*** From an accounting standpoint, the PERS adjustment is a nightmare. The district receives PERS funding from the state (based on the 1982-83 rate of 13.02 percent) and then returns a portion of the funds back to the state (the difference between 13.02 percent and 6.2 percent). This complex accounting makes it difficult for school boards and others that are interested in school finance to understand the PERS reduction—all of these complex transactions occur over revenue that is never seen by the district.
- ***PERS Cost Should Be Treated as a Regular District Cost.*** The PERS costs are not really different from other district costs. The state, however, does not adjust district funding levels to account for price changes for other specific educational inputs (such as maintenance, utilities, or payroll).

Include PERS Funding in Base Revenue Limits. During our three-agency discussions on the revenue limit process, our office has proposed to eliminate the PERS adjustment. In the future, districts would pay for any increases or benefit from any decreases in PERS costs. Our proposal would result in districts paying for PERS as they would any other district expense.

The PERS rate has decreased from 7.7 percent in 1996-97 to 6.2 percent in the current year, resulting in a PERS adjustment of $53 million. Due to rate reductions in 1998-99, the budget would reclaim an additional $6 million. Our proposal would allow districts, instead of the state, to reclaim the reduced costs of PERS since 1996-97. Our proposal allows districts to benefit immediately from decreased PERS rates and simplifies revenue limits. By doing this the state sends a message to districts that it is serious about making districts responsible for PERS no matter whether costs rise or fall.

For these reasons, we recommend the Legislature eliminate the PERS adjustment calculation by providing districts with their PERS rate as part of their base revenue limit. We further recommend an augmentation to revenue limits of $53 million in 1997-98 and $59 million in 1998-99 to fund these changes.

HOW DOES SENATE BILL 727 AFFECT REVENUE LIMITS?

Chapter 855, Statutes of 1997 (SB 727, Rosenthal), eliminates funding for "excused absences" from the parts of the school district revenue limit formula that are based on average daily attendance (ADA). Currently, excused absences permit schools to claim funding for absent students if they are sick or not attending school for other specified reasons. By excluding excused absences from the revenue limit process, general purpose funding will be based upon "actual attendance" beginning in 1998-99.

Currently, the statewide excused absence rate is around 4.3 percent of total ADA. During the first year of implementation, SB 727 holds districts harmless by increasing each district's revenue limit by a percentage equivalent to its excused absence rate. This calculation keeps the total amount of funds provided through revenue limits the same, but increases the per-student amount.

For instance, a school district with a per student revenue limit of $4,000 in 1996-97 that reports an excused absence rate of 5 percent will have (1) its revenue limit increased by 5 percent to $4,200 and (2) its ADA reduced by the same percentage. The district's total revenue limit—total ADA times the per-student revenue limit—remains unchanged.

In the budget year, schools that improve attendance will be able to increase their total revenue limit funding. If the above district reduces its absence rate from 5 percent to 4 percent in the future, it would receive an extra $4,200 for each additional student. This additional money could create a strong financial incentive for districts to ensure that students are actually attending school.

Senate Bill 727's Impact On the Deficit. Senate Bill 727 also eliminated other parts of the statutory revenue limit formula. For instance, it appears that SB 727 eliminates the revenue limit deficit factor. The DOF has interpreted SB 727 as eliminating the revenue limit deficit factor.

The deficit represents the amount that the state reduced statutory revenue limits by not providing cost-of-living adjustments during the recession years of the early 1990s. The deficit factor reduces revenue limits for school districts and county offices of education by a percentage that is approved as part of the annual budget process. The size of the deficit has decreased over the last few years because the Legislature has approved "deficit reduction" funding as part of past annual budget acts. Since 1994-95, the state has reduced the deficit factor from 11 percent to 8.8 percent as a result of additional funding.

In our *1995-96 Analysis of the Budget Bill*, we recommended elimination of the deficit as a way to improve revenue limits for the following reasons:

- ***The Deficit Factor Has Been a Cumbersome and Confusing Part of Revenue Limits.*** The deficit factor adds an additional revenue limit—the "deficited revenue limit for each school district." Because not all funds provided through the revenue limit are subject to the deficit factor, keeping track of the deficit results in an overly complicated revenue limit calculation.
- ***Reporting the Deficit Does Not Serve Any Useful Purpose.*** In past years, the revenue limit deficit has served (1) to remind policymakers that the K-12 revenue limit falls short of the statutory standard and (2) as an argument for revenue limit increases. In our view, however, the reporting of this gap no longer serves any useful purpose as a budgetary benchmark. During our visits to school districts, they reported that, in the past, the deficit was a useful way to explain to school boards why revenue limits were not increasing. More recently, however, as revenue limit funding has increased, districts have viewed the deficit factor as a technical component of revenue limits.

Senate Bill 727 has some significant drafting problems. The administration's proposed trailer bill language would correct many of these problems. We are continuing our review of the language and will inform the subcommittees of any concerns during budget hearings.

The Deficit Still Applies to Some Programs

We recommend the Legislature enact trailer bill language to eliminate the deficit factors used for county offices of education and various K-12 revenue limit calculations and delete $52.9 million to buy-out these deficit factors.

Senate Bill 727 does not eliminate the deficit factor for all programs. Programs such as summer school, community schools, and unemployment insurance costs still calculate funding using a deficit factor. The proposed budget includes $30.9 million and $22 million to "buy-out" the revenue limit deficits of school district and county office programs, respectively. This would eliminate virtually all deficits in K-12 programs.

While we think it makes sense to "wipe the slate clean" and eliminate all program deficits at this time, there are several ways to rebench revenue limits. The budget proposes one way—provide sufficient new funding. The deficit factor also can be eliminated without additional funds. This is the route used by SB 727 to eliminate the deficit for the rest of the revenue limit. The DOF provided no justification for why these district and county office programs merited additional funding.

Eliminate the Deficit—Save the Money. Eliminating the deficit factor for all programs makes sense. While SB 727 rebenches school district revenue limits, deficits in other programs remain. Eliminating the deficit factor for these programs will make the calculation of all revenue limit apportionments simpler and easier to administer. Accordingly, we recommend that the Legislature enact trailer bill legislation to eliminate the deficit factor used for county offices of education and various K-12 revenue limit calculations. Since no funding is needed to accomplish this, we also recommend deletion of $52.9 million proposed in the budget to buy-out these deficit factors.

REOPEN LONGER DAY AND LONGER YEAR INCENTIVES

We recommend the Legislature enact trailer bill language to reopen longer day and longer year incentives for school districts, at a cost of $225,000.

Since 1984-85, the state has provided school districts incentive funds to extend the school year and day. We estimate that the proposed budget includes around $600 million for the longer day and longer year incentives. Almost all districts receive these funds. To qualify for the incentives, districts had to apply to the Department of Education between 1984-85 and 1986-87 and meet minimum standards, as follows:

- ***Longer Year.*** To qualify for longer year incentive money, a school needs to provide 180 days of instruction (this includes up to eight staff development days). Districts that qualify receive around an additional $45 per student.

- ***Longer Day.*** To qualify for the longer day incentive, a district must provide a minimum number of minutes of instruction each day. The minimum varies according to grade, but students in fourth through eighth grade must receive an average of 5.2 hours per day and high school students must receive at least 6.3 hours per day. The state provides around an additional $25 per student for grades K-8 and around $50 per student for grades 9-12.

There are about 20 districts that do not qualify for one or both of the incentives. We surveyed these districts and found that the majority of them now meet the requirements, but do not receive the adjustment to their revenue limit because they did not meet the statutory application deadline. Of the 20 districts that do not meet the requirements, most reported they would add the necessary minutes and days if the incentive were available to them.

We think the Legislature should allow these districts to receive the longer day and longer year incentives, for the following reasons:

- ***Excluding Some Districts From the Incentives Treats Districts Unfairly.*** The longer day and longer year incentives should reward all districts that add the required instructional time. More than ten years has passed since the application "window" closed. At this point—excluding a few districts from receiving the incentive funds serves no policy purpose—it only creates unnecessary funding inequities.

- ***The Costs of Reopening the Incentives Are Minimal.*** We estimate the costs of reopening the incentive will be around $225,000. This would be funded through revenue limits.

Conclusion. This is a small problem that is easily fixed. We find no analytical basis to exclude districts from receiving the incentive money if they meet the longer day and longer year requirements. Accordingly, we recommend that the Legislature adopt trailer bill language to reopen the longer day and longer year incentives to all school districts. We also recommend the Legislature add $225,000 to school districts revenue limits for this purpose.

ASSESSMENT AND ACCOUNTABILITY

Test of Applied Academic Skills Behind Schedule

We recommend the Legislature delete $31.2 million in funding for the test of applied academic skills because the test will not be ready in the budget year. We also recommend the Legislature (1) delete the statutory requirement to adopt performance standards before beginning development of a test of applied academic skills; and (2) direct the State Department of Education (SDE), the State Board of Education (SBE), and the Commission for the Establishment of Academic Content and Performance Standards to provide the Legislature during budget hearings a joint work plan for producing a test by spring of 2000.

State law calls for two tests to measure the achievement of K-12 students.

- ***Standardized Testing and Reporting***. The Standardized Testing and Reporting (STAR) test, given to all students in grades 2-11 each year, is designed to provide ongoing information about students' academic skills to parents, teachers, and students. The 1998-99 budget proposes $30.4 million for the STAR test. The STAR test will be given for the first time in May 1998.
- ***Applied Skills.*** The test of applied academic skills is designed to assess students' ability to use academic skills to solve problems. Test items may include, for example, writing an essay in response to a question, conducting an experiment, or drawing a diagram to explain a concept. State law mandates that this test (1) be given statewide each year in grades 4, 5, 8, and 10, and (2) produce reliable school-level and district-level scores. The budget proposes $32.2 million for the applied test. Of this amount, $12 million is for test development and $20.2 million is for test administration. In addition, the *1997-98 Budget Act* allows the department to carry over up to $11 million in unspent development funds into 1998-99.

Chapter 69, Statutes of 1996 (SB 430, Greene), postponed the development of the applied test until after SBE adopted content and performance standards. Content standards describe the knowledge and skills students should acquire in a given grade. Performance standards describe what students need to do to demonstrate they are "proficient" in the knowledge and skills outlined in the content standards. Chapter 69 required the standards commission to submit to SBE proposed content and performance standards in language arts and mathematics by October 1, 1997, and SBE to adopt a version of these standards by January 1, 1998. Assuming that standards would be adopted by this date, SDE projected that it could produce a statewide test of academic skills in language arts and mathematics by spring 1999.

Lack of Performance Standards Further Delays Test. The standards commission and SBE have approved content standards in language arts and mathematics. The commission, however, has not started work on performance standards. At the time this analysis was prepared, neither the commission nor the board could advise us of a date by which performance standards would be adopted.

Because the performance standards are not available, the statewide test of applied academic skills will not be ready by spring 1999. The department's time line for producing a test by that time requires SDE to award a contract for test development to a publisher by March 1, 1998. If a contract is not awarded by this date, there will be insufficient time to develop and field test enough items for a statewide test.

Allow Test Development to Go Forward. As matters now stand, we cannot advise the Legislature of a date by which it can reasonably expect the test to be ready. We see two options for the Legislature:

- Require the standards commission to turn its attention to developing performance standards in language arts and mathematics. This may delay development of content standards in science and social science on which the commission is currently working.
- Allow development of the performance standards and test questions to occur simultaneously.

We believe that allowing test development along with performance standards makes sense from both a timeliness and a quality perspective, for two reasons. First, it is unclear that the performance standards would be ready this time next year, even if the commission devoted full-time to their development. The standards commission and SBE have not established a time line or process for adopting performance standards. It is not known, therefore, when performance standards will finally be adopted.

Holding up test development until they are adopted may push the eventual start date for the test past spring 2000.

Second, some experts in the field of assessment believe that performance standards are best developed *along with* a test of applied skills. In this scenario: (1) test questions are developed based on the content standards, (2) a representative sample of students answer these questions, and (3) examples of students' work are used to determine categories of performance (for instance "proficient" and "exemplary.") The SDE advises that it is confident that if joint development of test questions and performance standards begins by mid-1998, it can produce a test of applied academic skills by spring 2000.

We recommend, therefore, that the Legislature adopt trailer bill language allowing SDE to move forward with the development of test questions before performance standards are adopted. We also recommend that SDE, SBE, and the standards commission provide the Legislature, during budget hearings, a joint work plan describing how they will work together to adopt performance standards and develop a test by spring 2000. Finally, we recommend the Legislature delete $20.2 million for test administration to reflect the fact that the test will not be ready in the budget year. In addition, test development appears to be double-budgeted. The department advises us that it needs $12 million for development. Because this amount is in the budget and $11 million is available in carryover funds for this same purpose, we recommend the Legislature delete $11 million for test development.

IDENTIFYING LOW-PERFORMING TITLE I SCHOOLS

We recommend the Legislature adopt budget bill language directing the State Department of Education to use data from the Standardized Testing and Reporting program test to identify the lowest-performing Title I schools, beginning with the spring 1998 test.

What Is Title I?

The Improving America's School's Act of 1994 (IASA) was passed by Congress as the reauthorization of the Elementary and Secondary Education Act of 1965. The act provides the single largest source of federal aid to schools, kindergarten through grade 12. Title I, the largest program within IASA, is intended to provide extra services to low-performing students to help them become successful in their schoolwork. In 1998-99, Title I will provide approximately $930 million to California schools. Title I money is allocated to schools based on their concentration of children in poverty and is used to pay for things like teacher aides, staff development, and curriculum materials. Federal law states that California must spend about $4.6 million of its 1998-99 Title I money for assistance to schools identified as low-performing.

What Does Title I Require From California?

The 1994 reauthorization of Title I requires states to develop standards-based assessment and accountability systems to track the performance of Title I schools. Specifically, Title I requires three actions from California:

- ***Standards.*** The state must adopt content and performance standards in language arts and mathematics by fall 1997. Content standards describe the knowledge and skills students should acquire in a given grade. Performance standards describe what a student needs to do to demonstrate he or she is "proficient" in the knowledge and skills outlined in the content standards.
- ***Assessment and Accountability.*** The state must develop a statewide assessment and accountability system by fall 2000 that (1) is aligned with the state standards, (2) uses more than one measure to assess student performance (for example, standardized tests, writing samples, teacher evaluations), and (3) defines "adequate yearly progress" for schools. Schools not making adequate yearly progress for two years in a row are to be identified as "program improvement" schools and targeted for technical assistance from districts and the state.
- ***Low-Performing Schools.*** The state must establish alternative criteria to identify low-performing schools for program improvement until the statewide assessment system is in place. Title I calls these criteria a "transitional assessment system." States have great flexibility in designing transitional assessment systems—they do not, for instance, need to include multiple measures. Title I guidelines state, however, that the transitional assessment system must rely on accurate information about the academic progress of Title I schools.

Meeting Title I Requirements

Responsibility for the tasks necessary to comply with Title I is divided between SBE, SDE, and school districts. Below, we discuss the state's implementation of two of Title I's requirements.

State Out of Compliance on Standards. California is currently in the process of adopting academic standards. Chapter 828, Statutes of 1997 (SB 376, Alpert), requires SBE to adopt content and performance standards for language arts and mathematics, as recommended by the Commission for the Establishment of Academic Content and Performance Standards, by January 1, 1998. The board has adopted content standards for these subjects, but the standards commission has not yet developed performance standards for the board to review. As of this writing, neither the board nor the standards commission could identify a date by which performance standards would be adopted.

As a result, California is out of compliance with Title I requirements. Federal law says that states without content *and* performance standards by fall of 1997 may be required to adopt the standards of another state in order to continue receiving Title I money. The U.S. Department of Education has not yet decided to what extent it will enforce this provision.

The SDE Transitional System Uses Local Measures. During the transitional assessment period, the department has designed a system that uses data from district assessments of student performance. Specifically, the department requires districts to: (1) use multiple measures that are aligned with local standards to assess student performance; (2) combine the results of multiple measures in order to determine whether individual students are performing below, at, or above standards; and (3) report to SDE the percentages of students that are performing at or above standards. The department has decided that any school in which 60 percent or more of the students are below standard will be considered low-performing.

In order to monitor districts' assessment systems, the department required roughly 25 percent of districts (around 250) to submit in November 1997 descriptions of the "methods and procedures" they used to determine if students were meeting standards. The department is reviewing these descriptions and plans to use examples from them to guide districts in revising their assessment systems. The department has not yet prepared a descriptive summary of the 250 assessment systems it received from districts.

System for Identifying Low-Performing Schools Not Working

To understand how the transitional assessment is working in practice, we reviewed the descriptions of 15 assessment systems that districts submitted to SDE. We found that most districts used the same two types of measures in their assessment systems. Specifically, all districts we reviewed used standardized test scores, and all but one district used some sort of teacher evaluation—class grades or a "checklist" aligned with their standards that teachers filled out for each student. Six districts used other measures in addition to test scores and teacher evaluations, including essay tests, open-ended mathematics problems, and examples of students' work from throughout the year.

The department's approach to the transitional assessment system has some strong points. For instance, we think it was a good decision to include multiple measures in the transitional assessment system and to encourage districts to align their assessments with their standards. Title I does not require these things until fall of 2000, and the department's decision to require them now wisely gets districts started on refining the complicated assessment systems that will eventually be needed.

The department's transitional system, however, has serious shortcomings. The information generated by the transitional assessment system has little value from a statewide perspective. In addition, the system does not effectively identify low-performing schools. We discuss three major problems with the system in more detail below.

System Is Excessively Subjective. Based on our review of districts' assessment systems, we believe that SDE gains little useful or objective information when a district reports that a student is "meeting the standard." Three aspects of the system make it especially vulnerable to subjectivity. First, there is no consistency regarding the quality of local standards. For instance, the test score districts define as meeting the standard varies significantly. Four districts define scores above the 50 percent level as meeting the standard, four districts use 40 percent, three districts use 30 percent, and one district uses 20 percent.

Second, districts can combine scores from multiple measures in a way that allows relatively low-performing students to be considered as meeting standards. For instance, one district's method of combining scores results in classifying students as meeting the standard who (1) score in the bottom 5 percent on a nationally standardized test and (2) earn a "C" in their mathematics class. Another district's method weights a "proficient" score on the "classroom evidence" measure so heavily that a student can score a zero on the second measure and still be classified as meeting standards.

Third, the way class grades are used introduces subjectivity into the system. For instance, many districts defined a class grade of "C" as meeting the standard. The SDE did not require districts to explain the explicit connection between teachers' grading systems and districts' standards. As a consequence, it is not clear whether students earning a "C" grade have actually met local performance standards. Without this connection, grades can reflect the particular grading policies of teachers, schools, and districts as much as they reflect students' ability to meet a defined standard.

Low-Performing Schools Are Not Being Identified. Our review of district reports indicates that many districts are avoiding identifying low-performing schools by setting low standards. Six districts had assessment systems that defined what we considered to be poor performance—such as earning a class grade of "D" or scoring in the bottom 25 percent on a standardized test—as meeting standards. Not surprisingly, these six districts and four others did not identify a single low-performing school out of 169 total schools. These districts' assessments stand in contrast to one district that identified 42 "potential" low-performing schools out of 92 schools.

Problems Could Continue for Several Years. The department's plans regarding improving the transitional assessment system lead us to believe that the system may remain ineffective in identifying low-performing schools until at least the 2000-01 school year. Two points are most relevant. First, the department plans to take three years to review the assessment systems of the remaining 750 districts that have not submitted descriptions of their assessment systems (250 each year). This means that some districts may continue to "look the other way"—and some of the state's lowest-performing schools may remain unidentified—until the 2000-01 school year.

Second, SDE does not have a strategy for quickly and effectively correcting the inadequate assessment plans that have already been submitted. The department plans to (1) require districts that have submitted inadequate plans to submit revised plans in November 1998 and (2) issue guidelines to all districts regarding setting up assessment systems. This is the same strategy that produced the current system that does not work. The requirement for a transitional assessment system has been in place for *three years*, and the department has *already* issued guidelines to districts regarding Title I assessment systems. We have doubts, therefore, about how effective continuing this same strategy will be in improving the state's system for identifying low-performing Title I schools.

Long-Term, Short-Term Needs of Title I Assessment System

An assessment system for Title I schools should have the same characteristics as the state's assessment system—that is, (1) individual student scores that tell parents and teachers how well students are able to perform basic skills and (2) school-level scores that show how well students can apply those skills on higher-level tasks outlined in the state's content and performance standards. In the long term, we believe an assessment system that combines data from the STAR test, the statewide test of applied academic skills, and rigorous local assessments will best meet these needs.

In the short term, we believe that the state must strengthen its Title I assessment system and get an immediate start on identifying the state's weakest schools. The department's system—with its subjectivity and the freedom it grants districts to define poor performance as adequate—makes it impossible for SDE to discern which schools are the lowest-performing and, therefore, which schools have the greatest need for assistance and monitoring from the department.

Use Data From STAR To Identify Low-Performing Schools

For these reasons, we recommend the Legislature adopt budget bill language directing SDE to use the STAR test results as one measure for identifying low-performing Title I schools, until a more complete assessment system is developed. The STAR test will provide comparable, objective data that will allow a meaningful assessment of student achievement. Although the STAR test is not aligned perfectly with state or district standards, we believe it will provide a reasonable measure of effective teaching and student progress in the area of basic skills.

In addition, because local measures are an important component of a final assessment system, we believe the department should continue requiring districts to use multiple measures aligned with standards to measure the performance of schools. Schools, then, could be identified as low-performing *either* by STAR test scores *or* by district assessments of student performance.

Therefore, we recommend the adoption of budget bill language requiring SDE to use STAR results as one part of the state's Title 1 transitional assessment system as follows:

> The State Department of Education (SDE), for the purposes of the transitional assessment system required by Title I of the Improving America's Schools Act of 1994, shall define a "program improvement school" as a school that meets at least one of the following conditions: (1) the school's score on the Standardized Testing and Reporting (STAR) program test ranks among the lowest in the state, or (2) 60 percent or more of the school's students are performing, as determined by the school's or its districts' assessment system, below the standards adopted by the district.

In addition, schools could be ranked using the STAR test in a variety of ways. For instance, schools could be ranked by their average student score or by the percentage of their students that score below a certain threshold. To assist the Legislature with its deliberations, we also recommend the budget subcommittees direct SDE to provide a recommended method of ranking schools based on STAR scores.

CHILD DEVELOPMENT

The *1998-99 Governor's Budget* proposes $803 million from the General Fund for child development programs in the State Department of Education (SDE). This is an increase of $182 million, or 29 percent, from the current-year level of funding for the programs. The increase is a result of:

- $88.5 million to expand the California Work Opportunity and Responsibility to Kids (CalWORKs) child care programs.
- $44 million to place three programs on a full-year funding basis: infants and toddlers, preschool wraparound, and minimum wage impact. These programs received half-year funding in the current year.
- $25 million in half-year funding for expanding the state preschool program.
- $10 million in half-year funding for expanding infant and toddler programs.
- $14.6 million for a cost-of-living adjustment for child development programs.

The budget also proposes to spend $336 million in federal funds.

THE CALWORKS CHILD CARE PROGRAM

Chapter 270, Statutes of 1997 (AB 1542, Ducheny, Ashburn, Thompson, and Maddy) reformed California's welfare system and created the CalWORKs program. Under CalWORKs, program participants are (1) required to engage in work and / or work-preparation activities and (2) provided an array of welfare-to-work services, including child care.

CalWORKs delivers child care in three "stages." Stage I is administered by county welfare departments (CWDs) and begins when a participant enters the CalWORKs program. In Stage I, CWDs refer families to resource and referral agencies to assist them with finding child care providers. The welfare department then pays providers directly for the child care services.

County welfare departments transfer families to Stage II when the county determines that participants' situations become "stable"—that is, they develop a welfare-to-work plan and find a child care arrangement that allows them to fulfill the obligations of that plan. Stage II is administered by SDE through its voucher-based Alternative Payment programs (APs). Participants can stay in Stage II while they are in CalWORKs and for up to two years after the family stops receiving a CalWORKs grant.

Although Stage I and Stage II are administered by different agencies, families do not need to switch child care providers when they move into Stage II. The real difference between the stages is who pays providers—in Stage II, APs, operating under contracts with SDE, do this instead of CWDs.

Stage III refers to the entire subsidized child care system administered by SDE. A family can move from Stage II to Stage III so long as the family remains eligible for SDE child care and a space in the program becomes available for them.

THE GOVERNOR'S PROPOSAL FOR CALWORKS CHILD CARE

The Governor's proposed plan for CalWORKs child care makes two important policy decisions: (1) how to finance CalWORKs child care and (2) how the Stage II child care program will be administered.

Paying for CalWORKs Child Care. The budget estimates CalWORKs child care costs of Stages I and II in the budget year at $882 million. Of this amount, $430 million is in Stage I and $452 million is in Stage II. As shown in Figure 15 (see next page), the budget proposes to pay these costs out of three funding sources: federal grants, Proposition 98 General Fund, and non-Proposition 98 General Fund dollars.

Distributing the Child Care "Load" Between CWDs and SDE. The Department of Social Services (DSS) estimates that roughly 63,000 families would qualify for Stage II child care in the budget year—that is, their situation will be stable enough to move from Stage I to Stage II. The Governor's budget, however, provides funding for only 25,600 families ($189 million) for SDE's Stage II budget. Funding for the remaining 37,400 families ($263 million) is included, along with the entire Stage I budget, in the DSS budget as part of counties' welfare block grants. In other words, the Governor's budget places about 59 percent of the funding for Stage II child care in DSS, thereby *dividing* the administration of Stage II between CWDs and SDE.

Figure 15

Financing CalWORKs Child Care—Stages I & II[a]

1998-99 (In Millions)

Federal funds	$712
Proposition 98	139
General Fund (non-Proposition 98)	31
Total	**$882**

a Displays funding for CalWORKs child care proposed in the budgets of the State Department of Education and Department of Social Services.

ISSUES FOR LEGISLATIVE CONSIDERATION

Implementing the child care component of the CalWORKs program raises both policy and administrative issues. Below we discuss three aspects of the Governor's proposal that are particularly important for the Legislature to consider:

- An additional $88.5 million of Proposition 98 funds is proposed to support child care services exclusively for CalWORKs participants.
- Dividing Stage II child care between DSS and SDE.
- The SDE's contracting practices for distributing Stage II funding to local AP programs.

Proposition 98 and CalWORKs Child Care

The budget proposes to spend $88.5 million of new Proposition 98 funds for California Work Opportunity and Responsibility to Kids child care.

Because of the large number of children involved, the CalWORKs child care system is a large undertaking. The estimated cost in the budget year—$882 million—is larger than the total budget for all state-funded child development programs for the working poor—$664 million. In addition, we project that CalWORKs child care costs will continue to grow, increasing in 1999-00 by at least $100 million. In choosing how to pay for CalWORKs child care, the Legislature faces a number of priority questions, including how much Proposition 98 money should be used to pay for CalWORKs child care.

Financing CalWORKs Child Care in the Budget Year. As Figure 15 illustrates, there are three sources from which to pay for CalWORKs child care: federal grants, Proposition 98 funds, and non-Proposition 98 General Fund dollars. The Governor's budget proposes to spend $139 million out of the Proposition 98 guarantee for CalWORKs child care. This is an increase of $84.5 million, or 156 percent, from the current-year level of Proposition 98 spending for CalWORKs child care. In addition, the budget proposes to spend $4 million in Proposition 98 funds to expand resource and referral services to CalWORKs participants.

There is no way to determine analytically the "correct" amount of Proposition 98 money to spend on CalWORKs child care. Instead, the budget reflects the Governor's priorities about balancing resources and needs between the Proposition 98 portion of the General Fund—which pays for K-12 education, community colleges, and child development programs for the working poor—and the rest of the General Fund. Because the state can support CalWORKs child care costs with any combination of funding from these sources, the *potential* increase in Proposition 98's share of CalWORKs child care costs in the budget year ranges from zero (all new Stage II costs supported with federal funds or non-Proposition 98 General Fund dollars) to $350 million (all new Stage II costs paid for with Proposition 98 funds). The budget's policy call is to support about 25 percent of these new Stage II costs with Proposition 98 funds.

As estimates of both the Proposition 98 guarantee and General Fund revenues become more certain, the Legislature will want to evaluate its priorities for General Fund and Proposition 98 expenditures in determining the appropriate share of CalWORKs child care costs to support with Proposition 98 funds. The Legislature also should consider the long-run implications of this decision. For the next several years, Stage II child care costs are expected to increase. As a result, the Legislature will have to determine annually how to pay for CalWORKs Stage II child care. We estimate that, in 1999-00, the amount needed from state sources to finance CalWORKs Stage II child care may exceed $500 million. Until demand for CalWORKs child care stabilizes, therefore, the program will continue to add to the demand for Proposition 98 funds.

Stage II Child Care Needs to Be Coordinated

We recommend the Legislature direct the Department of Social Services and the State Department of Education to report at budget hearings on their plan to ensure that all families off cash assistance and receiving California Work Opportunity and Responsibility to Kids child care services are served in a way that does not reduce their five-year federal eligibility.

As discussed above, CalWORKs calls for a three-stage child care system, with Stage I administered by CWDs and Stages II and III administered by SDE. As we note above, the Governor's budget proposes to revise this structure by dividing Stage II into two parts, with one part administered by CWDs and the other by SDE.

Dividing Stage II Increases Administrative Flexibility. Officials at the Department of Finance (DOF) give two main reasons for transferring more than half of Stage II funding into county welfare block grants. First, DOF officials state that they want to increase the flexibility given to CWDs in administering the overall CalWORKs program. Increasing counties' welfare block grants means that, in cases in which counties' actual child care needs are less than estimated, CWDs can spend some portion of Stage II federal child care money on other CalWORKs services.

Second, DOF is concerned that SDE cannot easily reallocate Stage II money once it is contracted. The department has to divide Stage II money among 131 APs statewide, each with its own distinct geographical boundaries. Because SDE has no mechanism to "shift" slots from one AP program to another, any slots that SDE allocates to an AP that are not needed in a given region may sit unused for an extended time.

Dividing Stage II Creates Potential Problems Regarding Welfare Time Limits. Under federal welfare reform, adults can receive federally funded benefits for no more than five years over their lifetime. Under current law, every month of child care paid with federal welfare block grant funds through CWDs counts toward a family's federal five-year limit—even for families no longer receiving a CalWORKs cash grant. In contrast, each month of child care provided by SDE to families who no longer receive a cash grant does not count toward their federal five-year eligibility.

Splitting Stage II between CWDs and SDE creates two potential problems related to the five-year limit. First, it is not clear whether there are enough slots in SDE's Stage II budget to accommodate all families who will go off cash assistance in the budget year. Officials at the DOF state that there *was not* a connection between the number of families estimated to leave cash assistance and the number of Stage II slots allocated to SDE. In addition, DSS could not provide, by the time of this writing, an estimate of the number of families leaving cash assistance in the budget year. As a result, we are unable to advise the Legislature of whether SDE's allocation of Stage II funds is sufficient to meet the child care needs of families who are no longer receiving a CalWORKs cash grant.

Second, because CWDs can keep any unspent Stage II money in their block grant, CWDs have a fiscal incentive to move CalWORKs participants into SDE's Stage II slots as quickly as possible. This incentive may lead CWDs to fill all SDE Stage II slots early in the budget year with families whose situations are "stable," but who are not necessarily close to going off cash assistance. As a result, there may be no SDE Stage II slots available for families who go off cash assistance later in the budget year. These families, then, would remain in a CWD Stage II slot, and their five-year eligibility would continue to be reduced.

Coordination Needed Between DSS, CWDs, and SDE. We agree with DOF that, for reasons of administrative flexibility, it may make sense for both CWDs and SDE to administer Stage II in the budget year. However, to ensure this arrangement will satisfy the needs of CalWORKs recipients, we recommend the Legislature require SDE and DSS to jointly report to the budget subcommittees on the following: (1) an estimate of the number of families that will leave cash assistance in the budget year and a determination of whether SDE's portion of Stage II is large enough to accommodate the needs of these families and (2) how they plan to work together to create an administrative structure that provides a SDE Stage II slot to all families who are off cash assistance.

Improving SDE's Contracting for Stage II Slots

We recommend the Legislature adopt budget bill language requiring the State Department of Education (SDE) to allocate Stage II child care funding in county-wide increments. We also recommend the Legislature require SDE to report to the budget subcommittees on the data it plans to collect to gauge counties' needs for Stage II child care.

One of the department's most difficult tasks in administering Stage II child care is to allocate the correct number of slots to each of the 131 AP programs statewide. To do this perfectly, SDE would have to know the *precise* number of Stage II slots needed in 131 regions across the state. Two problems make this task especially difficult for the SDE. We discuss each of these problems below.

Give Counties Flexibility to Allocate for Stage II Slots. Estimating the child care need in a region involves three main estimates: CalWORKs caseloads, the rate at which participants need CalWORKs child care, and the available capacity of other state-subsidized child care programs. Each of these three estimates are themselves difficult to determine; therefore, any estimate of child care need is subject to a substantial margin of error.

To address this problem, we recommend the Legislature adopt budget bill language requiring SDE to (1) allocate Stage II money in county-wide increments and (2) ensure that CWDs and APs decide collectively how each counties' allocations should be divided among the APs. We think local APs and CWDs have better information than SDE to predict how child care needs are distributed *within* counties. Letting these local agencies control the allocation of Stage II slots increases the probability that SDE slots go where they are needed. We recommend adding the following language:

> The State Department of Education (SDE) shall determine how much Stage II money shall be distributed to each county, based on its best estimate of counties' needs for Stage II child care. In counties where there is more than one Alternative Payment (AP) program participating in Stage II, SDE shall require the county welfare department and all participating AP programs to jointly determine how much money will go to each AP program.

Make SDE's Contracting Process More Flexible. Despite the best efforts of CWDs and APs, demand for child care locally is unlikely to perfectly match available slots. However, the SDE's contracting process does not allow it to easily move slots among APs. For instance, if SDE contracts with an AP for more Stage II slots than are needed in a given area, the department cannot move those slots to another AP program until the next year's contracting cycle. Therefore, the department cannot readily respond to changing conditions because it cannot move those unused slots to areas of greater need.

This problem could be solved in a number of ways. For instance, if SDE distributed Stage II funding in two allocations—once at the beginning of the fiscal year and the remainder at the mid-point of the year. This would allow the department to revise the county allocations to better reflect actual need for Stage II child care services.

Current SDE plans call for all funds to be allocated at the beginning of the fiscal year. As discussed above, we think this plan would not adequately meet actual county needs for child care. Therefore, we recommend the Legislature require SDE to report to the budget subcommittees the following:

- How SDE's contracting system for Stage II child care will reallocate funds if needed to best meet county child care needs.
- A description of data SDE would collect from counties that will inform the reallocation process.

OTHER ISSUES

Charter Schools Evaluation

We recommend the Legislature use $400,000 in Goals 2000 funds to support the State Department of Education evaluation of the Charter Schools Act. We further recommend the budget subcommittees include trailer bill language extending by two years the due date of the report.

In December 1997, the Legislative Analyst's Office (LAO) and Stanford Research Institute (SRI International) submitted to the Legislature its report on charter schools, as required by Chapter 767, Statutes of 1996 (AB 2135, Mazzoni). The state provided about $190,000 from the General Fund for SRI's costs of the evaluation. State law extends to charter schools freedom from most state education laws in exchange for a greater focus on outcomes, such as parent satisfaction and student performance.

The SRI report was designed to provide the Legislature with early information on the implementation of the Charter Schools Act. The report contains useful data on the design and operation of California's charter schools and identifies a number of important issues in the area of charter school finance and governance. Given the limited time and resources afforded the study, however, the SRI report was unable to answer many questions that are essential for determining the success of charter schools.

A second report on charter schools is due from the State Department of Education (SDE) by January 1999. In this report, which was mandated as part of the original charter act, the department is required to review the "educational effectiveness" of the charter school approach. The department's study has never been funded, however. In the past, we have advised the budget subcommittees to wait for the completed SRI report before funding the SDE study. We felt that the results of the SRI study would give SDE information that would help the department to conduct a more focused, useful study. The SRI report suggests the following issues should receive additional study:

- ***The Success of Charter Schools in Improving Student Achievement.*** This would require examining student-level outcome data at charter schools and a sample of similar noncharter schools.
- ***Charter Schools That Use Home Schooling or Independent Study as a Primary Avenue for Student Instruction.*** These charter schools look quite different from regular K-12 schools. The state needs a better understanding of governance, financing, and student outcomes at these schools.
- ***How the Charter Laws Are Changing the Way Education Is Delivered in California.*** The Charter Schools Act was expected to give schools greater freedom over school finance, governance, and the way students are educated. The state needs a better understanding of whether (1) expected changes are occurring at charter schools and (2) charter school innovations are affecting the rest of the K-12 system.

The department has not started work on the report, which is due in less than one year. In addition, the budget does not propose any funding for the study. With the SRI report in hand, however, we think it is time for the Legislature to provide SDE with funds for the study. In addition, to give SDE sufficient time to complete the report, the Legislature would need to extend the statutory deadline for the report.

For these reasons, we recommend the Legislature appropriate $400,000 in Goals 2000 funds to SDE for its mandated charter schools report. We also recommend the Legislature adopt trailer bill language extending the report deadline to January 2001.

Broaden Uses of Staff Development Funds

We recommend the Legislature delete $44.2 million proposed for staff development because the proposals were not sufficiently justified. We also recommend the Legislature broaden the allowable uses for remaining staff development funds to include staff training in mathematics and reading.

The budget proposes to spend $76.9 million for staff development grants to school districts, from two sources. First, the budget allocates $36.9 million in Goals 2000 funds to support district training programs for teachers in reading. Of these funds, $6 million would support reading staff development programs for new K-3 teachers and $30.9 million would pay for training of teachers in grades 4 through 12.

Second, the budget proposes $40 million in one-time Proposition 98 funds for staff development in mathematics. These funds would provide support for additional training in mathematics for teachers in grades 4 through 12. We discuss our concerns with these proposals below.

Mathematics Proposal Lacks Focus, Justification. The $40 million for mathematics staff development has two components: (1) tuition grants to allow mathematics teachers to take college-level mathematics courses and (2) support for staff training provided to school teachers in grades 4 through 8.

We see several problems with the proposal. First, the Department of Finance (DOF) and Office of Child Development and Education provided no information on the specific problem the proposal was trying to address. Better student performance in mathematics is certainly a desirable goal. The question is, what prevents students from higher achievement? At the current time, we have little information to conclude that additional staff development is the key to better student performance in mathematics.

Second, we have several concerns with the specifics of the proposal. The tuition-grant proposal is so broad that a teacher could take virtually any college-level mathematics course, regardless of its relevance to a school's curriculum or a teacher's staff development needs. In addition, by allowing districts to use the funds only for two specific models of delivering services—tuition grants and in-service training—the proposal prevents districts from using the funds to support other training options that may better meet district training needs.

No Justification for Goals 2000 Proposal. In the past few years, the Legislature has appropriated substantial amounts of Goals 2000 funds for reading staff development. In 1995-96 and 1996-97, funds were focused on training K-3 teachers in phonics and other reading-related areas. In the current year, the Legislature provided $56.4 million for reading staff development to all K-12 teachers.

As a result, the Goals 2000 budget proposal for $30.9 million for the training of teachers in grades 4 through 12 would essentially duplicate the Legislature's actions on staff development in the *1997-98 Budget Act.* The Department of Finance, however, did not provide any evidence on the need for additional reading staff development for teachers in grades 4 through 12.

Provide Flexible Funds. Given these concerns, we cannot recommend the Legislature approve these proposals. Specifically, we cannot advise the Legislature that the level of needs for teacher training identified in the budget is appropriate or that the relative mix of funding for the two subject areas (reading and mathematics) would meet district needs. Further, we think the proposals unnecessarily restrict local flexibility in meeting district staff development needs.

However, we recognize that districts may have staff development needs in reading and mathematics. We also believe Goals 2000 funds are a reasonable source with which to support staff development activities.

Therefore, we recommend the following:

- Deny the proposal to use $40 million in one-time funds for mathematics staff development. Instead, we recommend the funds be added to the one-time district block grant (please see our "K-12 Priorities" section above). This would allow districts to use these funds for any purpose, including staff development in mathematics or reading.
- Approve $26.7 million in Goals 2000 funds for staff development in reading and mathematics. These funds would be available to support district priorities for staff development in these areas. (Other recommendations we have made in this section would increase Goals 2000 expenditures by $4.2 million. This leaves $26.7 million remaining for staff development.)

Teacher Training and Support

We recommend the Legislature delete $11.9 million for new and expanded programs to train and support teachers because the increases have not been adequately justified.

Class size reduction and increases in the number of teachers reaching retirement age have created a growing need for qualified teachers, especially in lower grades. In 1996-97 the number of multiple subject (K-8) credentials issued by the Commission on Teacher Credentialing (CTC) grew by around 14 percent. During this same time period the number of long-term emergency permits issued—which allow a person to teach even though they do not possess the appropriate credential—grew by 107 percent, to 12,347 permits.

The Governor's budget proposes $24.2 million in Proposition 98 funds to expand three existing programs and create two new programs to improve the training of teachers. We have concerns with four of these proposals, which we discuss in detail below.

In addition, several of the programs appear to be good candidates for federal Goals 2000 funding. The federal funds provide states with resources to make strategic investments to improve the quality of K-12 education. Two of the proposals discussed below are one- or two-year programs that, if approved by the Legislature, would be consistent with the intent of Goals 2000. Below, we discuss these program proposals and our recommendations.

Beginning Teacher Support and Assessment (BTSA), Reduce by $6.1 Million. The budget proposes $34.8 million for BTSA in 1998-99, an increase of $16.9 million or 90 percent. This increase includes $0.8 million for a 1998-99 cost-of-living-adjustment (COLA) and $16.1 million to expand the program to include 5,200 more teachers. In the current year, this program provided 5,420 first- and second-year teachers with training, mentors, and materials.

In 1995-96, BTSA received $4.8 million in Proposition 98 support. The budget proposal, therefore, represents a seven-fold increase in the size of the program over a three-year period. Given our projections of lower Proposition 98 funding and the very large increases in BTSA that were approved over the past two years, we think that an augmentation of $10 million is more in line with available resources and what the program can realistically absorb. This would allow the program to provide services to an additional 3,300 teachers. If districts want to expand this program more quickly, school districts could use other funds—such as Mentor Teacher program funds—for that purpose.

Preintern, Reduce by $1.8 Million. The budget proposes $3.8 million to expand the preintern program, which was authorized by Chapter 934, Statutes of 1997 (AB 351, Scott). In 1997-98, this program received $2 million of Goals 2000 funds as a pilot program to test the effectiveness of providing training and support to noncredentialed teachers who are working under a preintern permit (which is equivalent to an emergency permit).

According to CTC, current-year funds will not be awarded to districts until June 1998, which will support local programs in 1998-99. We were unable to obtain details on the design of the program or how CTC planned to evaluate the success of the pilot. Therefore, we think expanding the program at this time is premature. We recommend the Legislature maintain funding at the current level, and delete the proposed augmentation of $1.8 million. We also recommend the Legislature use Goals 2000 funds to support the $2 million cost of the second year of the pilot.

Salary Schedule Pilot, Delete $1 Million. The budget proposes to provide $1 million as incentive funds to school districts to develop innovative compensation systems for teachers. Such systems would encourage and reward teachers for acquiring new skills that improve their classroom teaching. According to the CTC, several districts have successfully entered into agreements to modify salary schedules to reflect the needs of the districts.

These agreements are in the best interest of districts because they allow districts to identify and reward exceptional work by teachers. We could not obtain additional information to explain why additional state funds are needed to encourage these reviews. Accordingly, we recommend deletion of $1 million to fund the pilot. As discussed above, if the Legislature chooses to approve this proposal, Goals 2000 funds would be an appropriate source.

Teacher National Board, Delete $1 Million. The budget proposes to provide $1 million for 1,000 grants to teachers to offset the cost of applying for National Board Certification. The National Board Certification is awarded to teachers that demonstrate substantial achievement in subject matter knowledge, teaching skill, school leadership, and community participation. Certification recognizes teachers who are doing a good job. It would not, however, necessarily spur improvements in teachers who are not so accomplished. We could not obtain information to explain how this certification will directly increase the quality of teachers, or why state funds are needed for this purpose. Without information about the costs and benefits of the program, we recommend rejection of this proposal.

High Risk Youth Programs Overbudgeted

We recommend the Legislature reduce by $10 million funding for the high-risk first-time offenders program to reflect realistic expectations about how fast this program can be implemented. We also recommend the Legislature revise the Budget Bill so that the funds in this item can also be used to transition high-risk youth back into school.

Chapter 340, Statutes of 1997 (SB 1095, Lockyer) establishes two programs—the high-risk first-offenders program and the transitioning high-risk youth program. The goal of both programs is to extend the school day to between 8 and 12 hours and provide a range of services—including counseling, job training, and work experience—designed to prevent youths from becoming chronic, repeat offenders. The first-time offenders program serves youths under 16 years old who have been referred to a county probation department. The transitioning high-risk youth program serves youths who are returning to school from juvenile probation camps, ranches, and halls.

The Governor's budget proposes $20 million for the Chapter 340 programs, a four-fold increase from the current-year funding level. The budget, however, proposes to use all $20 million for the first-time offender program—and no funding for the transitioning program. The DOF advises that the proposal reflects the administration's priorities for funding the two programs.

Budget Accelerates Programs' Growth Too Fast. The Governor's budget proposes enough money, in our estimation, to fund a relatively large statewide program. We believe this level of funding is not warranted, for two reasons. First, we do not know how many districts and county offices of education will choose to implement the programs in the budget year. Given the amount of planning required to put together programs with multiple services, however, it is unlikely that local education agencies could implement the programs to this extent in the budget year.

Second, a slower startup of these programs can help improve the quality of the program in the long run. It takes time for new programs to resolve implementation issues, such as determining the types of services that are most effective, and achieving the necessary inter-agency linkages. By encouraging a slower startup, therefore, the Legislature can help focus local implementation on quality rather than quantity.

For these reasons, we recommend the Legislature reduce funding for the high-risk first-time offenders program by $10 million. We also recommend the Legislature revise the Budget Bill so that both high-risk first-time offenders programs and transitioning high-risk youth programs can be funded with the remaining $10 million.

Commission on Teacher Credentialing

We recommend the Legislature adopt budget bill language requiring the Commission on Teacher Credentialing to complete its Year 2000 computer upgrades and an information technology strategic plan before it receives funds for other computer projects.

The budget proposes $198,000 from the General Fund to upgrade the CTC computer systems. The proposed project would cost $1 million over five years ($0.3 million in one-time costs and $0.7 million in on-going costs). The CTC is requesting these funds because many of its computers are old and have insufficient memory to work effectively. The request appears reasonable. We have the following concerns with the proposal, however:

- ***Year 2000 (Y2K) Upgrades Take Priority.*** The commission is in the process of completing computer upgrades to comply with Y2K requirements. These upgrades are necessary for computer systems to recognize the year 2000. The Governor issued an executive order prohibiting projects that are not otherwise mandated until the department is Y2K compliant. (For more information on the Y2K problem, please see our analysis in Section G of this *Analysis*.) The CTC is currently working on the upgrades necessary for Y2K compliance. It plans to complete its Y2K upgrades by December 1998. Because CTC is not Y2K compliant, however, the budget proposal for additional upgrades is premature.

- ***No Long-Term Plan in Place.*** The commission's strategic business plan lacks sufficient detail on how it intends to use technology to meet its business goals. According to the CTC, some of the problems addressed in its budget proposal developed because there was little coordination of its computer systems as they grew. Without a long-term information technology plan, we think there is a potential for similar problems in the future. To avoid such problems, the Legislature should require the CTC to revise its strategic business plan to include a detailed five-year information technology plan prior to funding any new upgrades of its systems.

For these reasons, we recommend the Legislature delay funding for this project until CTC has complied with the Governor's executive order on Y2K compliance and developed a five-year technology plan that is consistent with the commission's strategic business plan. The following budget bill language is consistent with this recommendation.

> Of the funds appropriated in this item, $198,000 for the upgrading of Commission on Teacher Credentialing (CTC) computer systems shall be made available only after the Department of Information Technology certifies that CTC has completed (1) all year 2000 computer upgrades and (2) an information technology strategic plan.

SPECIAL GRANTS FOR MUSEUMS

We recommend the budget subcommittee request the state Department of Education (SDE) to report on the status of grants given to museums. We further recommend the Legislature require SDE to audit museums that have received special grant funds to determine whether the funds have been used as they were intended. The Legislature should require the department to report its audit findings by December 31, 1998.

Background

The *1997-98 Budget Act* includes $7.2 million of one-time Proposition 98 funds for six noneducation agencies—mostly cultural and science museums. Since 1995-96, the state appropriated around $21 million in Proposition 98 funds as grants to six museums. Several museums received funding in more than one year. Trailer bills usually have broadly specified the purpose of each grant. The uses range from building or retrofitting facilities to developing exhibits and programs.

The SDE administers these grants. It requires that each museum complete an application describing the intended use of the funds. Once SDE certifies that the museum plans to use the funds according to the intended purpose, funds are disbursed. The museum then has two years to spend the grant. The department withholds payment of 10 percent of the total grant amount until the museum provides a final report about how it used the funds.

Problems With Special Grants

In our review of the implementation of the museum grants, we found several problems, as discussed in more detail below.

Projects Are Funded Prematurely. Several of the projects were not at a stage where funding was needed. For example, the California Indian Museum was awarded a $2 million grant in 1996-97 to prepare a museum site at the San Francisco Presidio. Legislation specified that the funds were to be used to retrofit a building at the Presidio. Due to disputes with the Presidio Trust, the museum has been unable to acquire any building space at the Presidio and, as a result, it has been unable to use the money. The California Indian Museum is now in the process of finding alternative space and intends to request legislation to modify the original statute so that it can use the money for an alternative purpose.

Unclear Educational Connection. The special grants to museums are funded with Proposition 98 funds. Proposition 98 supports K-12 and community colleges as well as direct educational services provided by other agencies, such as the state's special education schools and the California Youth Authority.

The educational value of the museum projects is not always clear, however. It can be argued that museums provide indirect educational benefits to a community—that the function of a museum is by its very nature, educational. Museums can also benefit schools by offering direct services to students in the form of reduced priced or free admission, school outreach, and on-site teacher training.

Most of the grants, however, are not spent on programs directly related to schools or teachers. The majority of grants provide funds for capital outlay or other physical improvements. In our review of educational programs and materials provided by several of the museums, we found a wide range of quality and educational relevance in the materials. At one end of the spectrum, the Simon Weisenthal Center offers teachers a comprehensive lesson plan and supporting materials for discussing tolerance and racism in preparation for museum visits. Other museums offered far less in the way of direct services.

Funding museums with Proposition 98 funds also raises possible legal concerns. For example, in 1997-98 the California Museum Foundation received a grant of $775,000. The Foundation received this money on behalf of the African-American Museum, which is part of the California Science Center. Ordinarily, a state agency, such as the California Science Center, is not eligible for funding with Proposition 98 monies.

Grants Are Poorly Administered. The Department of Education provides limited oversight in the distribution of grants. The department had an opportunity to prevent several of the problems discussed above through the way it administers the grants. In our view, instead of implementing a system that addressed these problems, SDE's administrative process exacerbates the problems.

The primary concern is that SDE's payment process does little to hold museums accountable for the funds they receive. Below we describe three ways that the payment system compromises accountability.

- ***Payments Provided Before Museums Can Spend the Money.*** The museums received 90 percent of their grant almost immediately—SDE did not coordinate payments with projected funding needs. This has resulted in funds sitting in museum accounts, earning interest. We estimate that museums have earned around $1 million in interest in this manner. This is money that the state could have earned if the grants were given when museums *needed* the money instead of when they initially requested it.
- ***Little Is Withheld to Ensure Proper Use of Funds.*** Only 10 percent of the grant is withheld contingent upon proof of proper spending. So little is withheld that we are concerned that the state would have almost no leverage over a museum that failed to spend the funds for the purpose described in statute.
- ***No Planned Audits.*** The department has made no plans to audit the museums to ensure that grants were used properly. A final report issued by museums to the SDE is the only information the SDE reviews to determine whether the grants have been properly used. In addition, museums reported to us that the department provided limited guidance on how they should keep records in the event of an audit.

Require Increased SDE Oversight

The department has a responsibility to protect the state's fiscal interests in this matter. The department's grant process falls far short of the mark. At the current time, however, SDE plans no changes in this process. For this reason, we recommend the Legislature take the following steps to improve how these grants are administered:

Request SDE to Report on the Status of Grants to the Budget Subcommittee. We recommend the Legislature request SDE to report on the status of each grant during budget subcommittee hearings. The department should report on the following: (1) how the grants have been spent or will be spent; (2) how much of the funds have been spent; (3) if projects are not completed, when will they be completed; and (4) if funds are being used according to their intended purpose.

Require the Department of Education to Audit Museums. Currently, the application filled out by each museum requires it to keep records for auditing purposes. Requiring audits of the six museums will let the Legislature know whether funds were used as expected and send a message that the state is serious about proper use of the grants. We recommend the Legislature require SDE to conduct an audit of each museum and report its findings to the Legislature by December 31, 1998. Specifically, we recommend the adoption of the following supplemental report language:

> The Department of Education shall conduct an audit of all museums that have received special grants with Proposition 98 funds in fiscal years 1995-96 through 1997-98. The audit should determine the following: (1) how each museum used their funds, (2) whether the use complied with the terms of the grant, (3) a chronology of expenditures over the grant period, and (4) the amount of remaining funds.

Maximize Direct Benefits to Schools. If, in the future, the Legislature decides to provide museum grants with Proposition 98 funds, we recommend the Legislature consider measures to ensure that funds are spent in ways that maximize direct benefits for schools. This could be accomplished by requiring that funds are to be used to provide free or reduced priced admission to students, support for classrooms, or training for teachers. Another option is to provide museum grant funds directly to schools. This option allows schools to choose museums that provide programs of educational benefit, and to spend their grant towards visits or bringing museum services on site.

Findings and Recommendations

K–12 Education

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K-12 Priorities

1.	**Develop Information on Future Funding Options.** Recommend appropriating $2 million in federal Goals 2000 funds to develop four demonstrations programs that would provide information on the relative costs and benefits of major K-12 programs.	E-20
2.	**Legislative Analyst's Office Outlook Indicates Fewer Proposition 98 Funds.** We project that there will be $196 million less in Proposition 98 funds for 1998-99 than the amount estimated in the Governor's budget because of changes in projected General Fund revenues.	E-23
3.	**Balance State and Local Funding Needs.** Recommend developing the K-12 budget based on the Legislature's goals for public education and the relative roles of the state and local school districts in the governance of schools.	E-26

Options for 1998-99 Funds

4.	**Create a Proposition 98 Reserve.** Recommend setting aside $75 million in Proposition 98 reserve to protect against over-appropriating the minimum funding guarantee.	E-29

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5.	**Approve K-12 Cost-of-Living Adjustment (COLA) Calculation.** Recommend approval of proposed trailer bill language to change the way K-12 COLAs are calculated because the proposed COLA calculation would more accurately reflect inflation that has occurred over the past year.	E-30
6.	**Provide Step Adjustment for Class-Size Reduction.** Recommend increasing by $77.3 million support for class-size reduction to reflect increased school district salary costs of the program.	E-32
7.	**Fund All Mandates**. Recommend providing $1.2 million to support costs of the law enforcement notification mandate because these costs will come due in the budget year. Also recommend using $4 million in one-time money to pay for prior-year claims.	E-32
8.	**Reject Opportunity Scholarships.** Recommend deleting this item for a cost of $39 million in non-Proposition 98 General Funds because the benefits of vouchers have not been determined.	E-33
9.	**Delete Summer School Augmentation.** Recommend deleting $10 million for summer reading programs in grades 3 to 6 because the budget already provides schools sufficient funds for this purpose.	E-34
10.	**Maintain Local Control Over Expulsions.** Recommend deleting $6.2 million and trailer bill language to expel students possessing drugs at school in order to maintain local control over expulsions.	E-35

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Options for Prior Year Funds	
11. **Give Block Grants to Districts.** Recommend providing $188.2 million for school district block grants because districts have a better understanding of overall district needs than individual schools.	E-36
12. **Reject Other Policy Initiatives.** Recommend deleting $10 million for community policing and $3 million for low-performing schools initiatives because the budget provides insufficient details about these proposals.	E-37

Longer School Year

13. **Little Evidence to Support a Longer Year**. Recommend rejection of the Governor's longer-year proposal because more days of the same type of instruction have not been found to improve student achievement.	E-38

Revenue Limits

14. **Include Public Employees' Retirement System (PERS) Costs in Base Revenue Limits**. Recommend enactment of legislation to eliminate the PERS reduction from the revenue limit calculation.	E-44
15. **Eliminate All Program Deficits**. Recommend enactment of trailer bill language to eliminate the deficit factors used for county offices of education and various K-12 revenue limit calculations and delete $52.9 million proposed to buy-out these deficit factors.	E-47

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16. **Reopen Longer Day and Year Incentives.** Recommend the Legislature enact trailer bill language to reopen longer day and longer year incentives at a cost of $225,000.	E-47

Assessment and Accountability

17. **Test of Applied Academic Skills Behind Schedule.** Recommend deleting $31.2 million for test development and administration. Recommend removing statutory requirement that requires academic standards be adopted before test development can begin.	E-49
18. **Improve System for Identifying Low-Performing Title I Schools.** Recommend the Legislature direct the State Department of Education to use the Standardized Testing and Reporting test to identify the lowest-performing Title I schools.	E-51

Child Development

19. **Coordinating Administration of Stage II Child Care.** Recommend the Legislature direct the State Department of Education (SDE) and the Department of Social Services to report at budget hearings about how they will work together to ensure that families off cash assistance and receiving California Work Opportunity and Responsibility to Kids child care services do not reduce their federal five-year lifetime eligibility.	E-61

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20.	**Contracting for Stage II Child Care.** Recommend the Legislature adopt budget bill language requiring SDE to allocate Stage II funding in county-wide increments. Recommend the Legislature require SDE to report to the budget subcommittees on its plans to distribute Stage II child care funds in a way that best meets county child care needs.	E-63

Other Issues

21.	**Charter Schools Evaluation.** Recommend the Legislature use $400,000 in federal Goals 2000 funds to support the SDE evaluation of the Clinton Schools Act.	E-65
22.	**Staff Development in Reading and Mathematics.** Recommend (1) deleting $40 million in one-time funds for mathematics staff development and (2) providing $26.9 million in federal Goals 2000 funds for district staff development needs in reading and mathematics, in order to maximize district flexibility over available funds.	E-66
23.	**Reduce Spending on Beginning Teacher Support and Assessment (BTSA).** Recommend approval of $10 million of the $16.1 million the budget proposes for the expansion of BTSA because this increase is more in line with what the program can realistically absorb.	E-68
24.	**No Increase for Pre-Intern Pilot Project.** Recommend deletion of $1.8 million to expand the Pre-Intern program because expansion of this pilot program is premature. Further recommend using federal Goals 2000 funds to support the pilot's $2 million base program allocation.	E-68

	Analysis Page
25. **Deny Salary Schedule Pilot Request.** Recommend deletion of $1 million proposed for a new salary schedule pilot program because the proposal is not adequately justified.	E-68
26. **Deny Teacher National Board Certification Request.** Recommend deletion of $1 million proposed for incentive grants for Teacher National Board Certification because the proposal is not adequately justified.	E-68
27. **High-Risk Youth**. Recommend reducing funding by $10 million to reflect realistic estimates of how quickly the program can expand. We also recommend revising the Budget Bill so that both the first-time high-risk youth offenders program and the transitioning high-risk youth program are funded.	E-69
28. **Commission on Teacher Credentialing**. Recommend enactment of budget bill language to require the Commission on Teacher Credentialing to complete its year 2000 upgrades and information technology strategic plan before beginning any other computer projects.	E-71
29. **Provide an Update to the Legislature**. We recommend the Legislature request the State Department of Education (SDE) report on the status of all museum grants to the budget subcommittee.	E-72
30. **Require the Department of Education to Audit Museums.** We recommend the Legislature require SDE to audit museums that receive Proposition 98 special grants to determine whether the grants are appropriately spent.	E-72