

MAJOR ISSUES

Education



Improving Reading and Other Academic Skills

- The budget proposes several new categorical programs intended to improve the reading skills of K-12 pupils, with an emphasis on grades K-4.
- We recommend an approach that recognizes the importance of improving other academic skills along with reading, and that would give local schools more flexibility in matching funds with particular local needs and circumstances (see page E-34).



Enhancing Teacher Quality

- The budget has a number of proposals intended to enhance the professional quality of the state's public school teachers. These proposals tend to be narrowly drawn and tend to restrict local options for improving teacher quality.
- We make a series of recommendations intended to make the proposals broader in scope and effect, and to increase options for local school districts and teachers (see page E-48).



Accountability

- The Governor's accountability proposals are well-intended, but raise implementation concerns. For example, the proposals provide no direct role for school districts.
- We make a series of recommendations that we believe will provide for smoother, more effective implementation, including placing districts in the "chain" of accountability (see page E-67).



Deferred Maintenance

- The budget deletes funding that the Legislature added last year for ongoing support of deferred maintenance of school buildings, to be matched dollar-for-dollar from local funds.
- We recommend restoration of the state money (\$115 million) because the current backlog of deferred maintenance continues to be a serious problem (see page E-95).



Budget Detail Lacking for California State University and University of California

- The Governor's budget provides little detail on how California State University (CSU) and University of California (UC) will allocate budget changes among various programs. The Governor's budget states that CSU and UC will develop specific budget plans in the spring.
- We withhold recommendation on the total proposed budgets for CSU and UC pending receipt of specific budget plans (see pages E-115 and E-122).



California State University Teacher Preparation Enrollments

- In the past two budget acts, the state has invested \$13.8 million to expand CSU's teacher preparation enrollments by 2,702 full-time equivalent students. Now, CSU reports that it does not know how many students are enrolled in its teacher preparation programs.
- If CSU cannot document at budget hearings that it achieved the promised enrollment growth, we recommend the Legislature shift the \$13.8 million from its base to the Cal Grant T program (see page E-125).



Additional Cal Grant T Awards

- In addition to the possible shift of \$13.8 million noted above, we recommend shifting \$2.5 million in funds proposed for other initiatives, instead providing additional Cal Grant T awards to prospective teachers (see page E-147).

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OVERVIEW

Education

The Governor's budget includes a total of \$33.1 billion in Proposition 98 funding for K-12 schools for 1999-00. This is an increase of \$1.5 billion, or 4.9 percent, over estimated expenditures in the current year. The budget includes a total of \$9.3 billion in support for higher education, including financial aid for college students.

Figure 1 shows Proposition 98 and General Fund support for K-12 and higher education for three years.

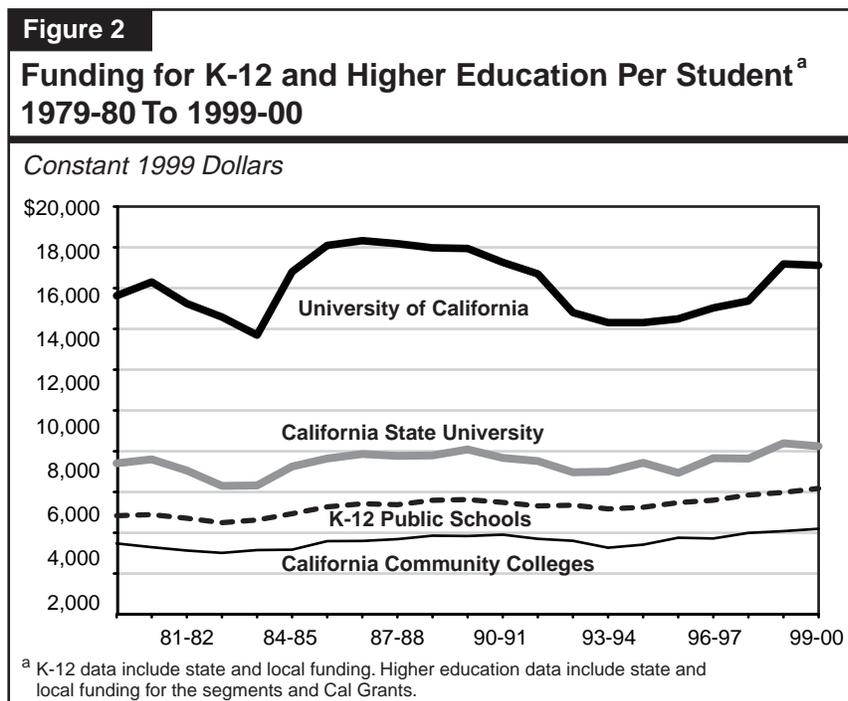
Figure 1					
K-12 and Higher Education Funding^a					
<i>1997-98 Through 1999-00 (Dollars in Millions)</i>					
	Actual 1997-98	Estimated 1998-99	Proposed 1999-00	Change from 1998-99	
				Amount	Percent
K-12 Proposition 98	\$29,375	\$31,568	\$33,117	\$1,549	4.9%
Higher Education	8,046	8,910	9,250	340	3.8

^a Includes spending from state General Fund support and local property taxes.

The Proposition 98 request for K-12 represents around \$5,900 per student, as measured by average daily attendance (ADA). The budget request for community colleges represents about \$3,900 per full-time-equivalent (FTE) student. The proposed General Fund budget for the California State University (CSU) represents about \$7,700 per FTE student, and the proposed General Fund budget for the University of California (UC) represents about \$15,700 per FTE student.

HISTORICAL PERSPECTIVE OF FUNDING PER STUDENT

To place funding for K-12 and higher education into a historical perspective, we have compared funding per student for K-12 schools and the three public higher education segments from 1979-80 through 1999-00, adjusting for the effects of inflation over this 20-year period (see Figure 2). As the figure shows, per student funding for each segment, after adjusting for the effects of inflation, is at or near their highs over the past 20 years.

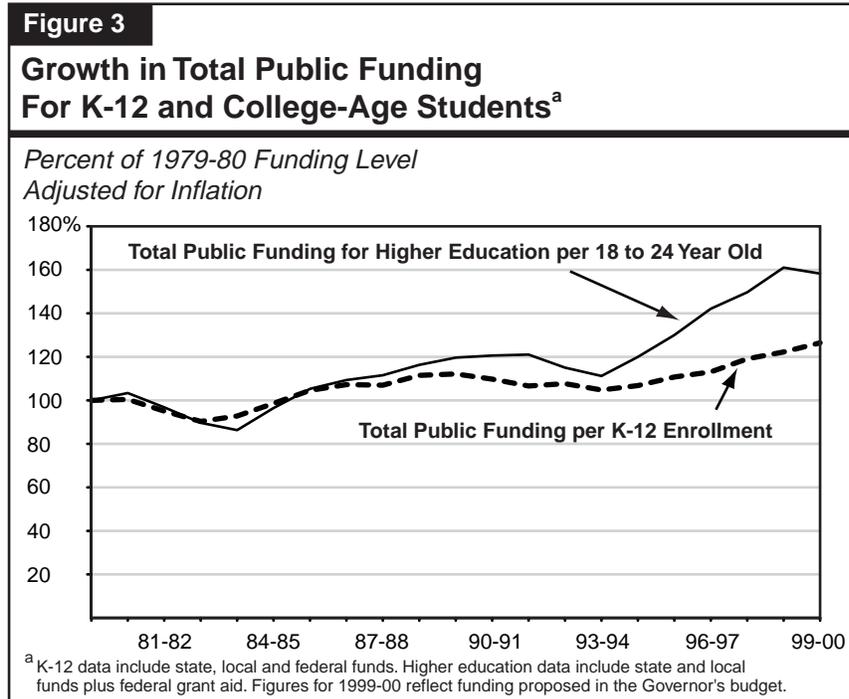


Funding Effort

Figure 3 provides another perspective on inflation-adjusted funding over time for K-12 and higher education. The figure shows the percentage of 1979 funding that K-12 and higher education have received over time per K-12 enrollment and per 18-to-24-year old. It indicates that funding effort for the two groups tracked fairly closely through 1993-94.

Since that time, however, funding per 18-to-24-year old has outpaced funding per K-12 enrollment. Growth in higher education funding per 18-to-24-year old reflects, in large part, the significant increase in college

participation among the college-age population. The figure also suggests that the level of public subsidy for both K-12 students and college-age adult, after adjusting for inflation, has increased over the past 20 years.



Below we describe how Proposition 98 allocates state funds for K-12 and community college programs.

PROPOSITION 98

The voters enacted Proposition 98 in 1988 as an amendment to the California Constitution. That act, which was later amended by Proposition 111, establishes a minimum funding level for K-12 schools and the California Community Colleges. 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 specific formulas. Figure 4 (see next page) briefly explains the workings of Proposition 98, its "tests," and many other major funding provisions. The five

Figure 4

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 (CCC) 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 (CCC) 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.”

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 the 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. Because the Legislature chose to appropriate funding for Proposition 98 significantly above the minimum in the current year, increases in the calculated minimum guarantee will not necessitate an increase in the appropriation level.

Proposition 98 Allocations

Figure 5 displays the allocations of Proposition 98 funding for K-12 schools and community colleges. The overall increases for Proposition 98 in the current year, based on revised estimates in the proposed budget, are \$41.9 million.

Figure 5					
Proposed Proposition 98 Allocations					
<i>1998-99 and 1999-00 (Dollars in Millions)</i>					
	1998-99			1999-00 Proposed	Change From 1998-99 Revised
	Budget Act	Revised	Change		
Proposition 98 "Test"	Test 3	Test 3	—	Test 2	—
K-12 Education					
Amount	\$31,271.6	\$31,318.6	\$47.0	\$32,806.6	\$1,488.0
Share	89.4%	89.4%	—	89.4%	—
Community Colleges					
Amount	\$3,616.3	\$3,612.7	-\$3.6	\$3,807.4	\$194.7
Share	10.3%	10.3%	—	10.4%	—
Other Agencies					
Amount	\$88.4	\$86.9	-\$1.5	\$85.3	-\$1.6
Share	0.3%	0.3%	—	0.2%	—
Totals, Proposition 98	\$34,976.3	\$35,018.2	\$41.9	\$36,699.3	\$1,681.1

The budget proposes \$36.7 billion for Proposition 98 in 1999-00. The shares allocated to the three components remain similar to the 1998-99 revised shares. Proposition 98 funding issues are discussed in more detail in the K-12 education introduction and community college sections of the *Analysis*.

CROSSCUTTING ISSUES

Education

FEDERAL FUNDING

We recommend that the Secretary of Education, Superintendent of Public Instruction, the University of California, the California State University, and the California Student Aid Commission report to the Legislature at budget hearings on efforts they are taking to apply for federal grant programs.

The federal 2000 budget introduced February 1, 1999 provides almost \$2 billion nationally for new federal programs which are not reflected in the Governor's budget. The most significant federal initiative is the President's federal Class Size Reduction program. California is guaranteed \$129 million of the \$1.2 billion provided for class size reduction nationally.

The remainder of the new federal funds are for grant programs for which either the Secretary of Education, Superintendent of Public Instruction, UC, CSU, or the California Student Aid Commission would have to apply. Figure 1 (see next page) displays the major new federal initiatives. Most of these federal initiatives parallel new programs under legislative consideration or were newly adopted in the last couple of years.

Since none of this new federal funding is reflected in the Governor's budget, we recommend the appropriate state agencies report to the Legislature on efforts they are taking to apply for federal funds, and how federal programs will be coordinated with state programs.

Figure 1		
Major New Federal Initiatives		
<i>(Dollars in Millions)</i>		
Program	Amount Nationally^a	California's Potential Share
Class size reduction	\$1,200	\$129
Reading excellence act	260	31 ^b
Community learning centers (after school programs)	200	24 ^b
Gear-up (college access programs)	120	14 ^b
Improving teacher quality	75	9 ^b
Technology training	75	9 ^b
Bilingual education profession development	25	8 ^c
Total	\$1,955	\$224

^a Federal Fiscal Year 2000 (October 1, 1999 to September 30, 2000).

^b These estimates are based upon 12 percent of the federal funds, which is approximately California's historic share of federal funds.

^c This estimate is based upon California's prior ability to access bilingual education grants.



INTRODUCTION

K-12 Education

The budget includes an increase in K-12 Proposition 98 funding of \$1.5 billion in the budget year. This is \$192 per student, or 3.3 percent more than the revised estimate of per-student expenditures in the current year. The budget also proposes to spend \$108 million from current-year Proposition 98 funds for one-time purposes in 1999-00.

Figure 1 (see next page) shows the budget from all significant sources for K-12 education for the budget year and the two previous years. As the figure shows, K-12 spending from all sources is projected to increase by \$2.8 billion, or 7 percent, above the current-year level.

Proposition 98 funding constitutes about three-fourths of overall K-12 funding. For 1999-00, the budget proposes to increase K-12 Proposition 98 funding by \$1.5 billion. This represents an increase of \$192 per student to \$5,944, or a 3.3 percent increase from the revised 1998-99 per-student amount.

The levels of Proposition 98 spending for 1997-98 and 1998-99 remain above the minimum guarantee required for these fiscal years. Due to downward revisions in estimates of average daily attendance (ADA) and state population for these two years, the calculated minimum guarantee has fallen. The revised budget, however, maintains funding at or near previous levels. As a result, the amount by which spending is above the minimum in 1997-98 grows from \$177 million to \$299 million and in 1998-99 grows from \$413 million to \$1 billion. These overappropriations have the effect of increasing the Proposition 98 base for all subsequent years. In the budget year, the proposed Proposition 98 appropriations meet, but do not exceed, the minimum guarantee.

One-Time Spending of Current-Year Savings. The budget also proposes spending \$108 million of unspent current-year Proposition 98 funds. Generally, unspent current-year Proposition 98 funds are used for one-time purposes to satisfy the minimum guarantee. Since appropriations in 1997-98 and 1998-99 exceed the minimums by large margins, the

state does have the option of reverting these balances to the General Fund for other state priorities. The budget, however, proposes to maintain current-year appropriation levels by using the \$108 million in savings (from mandates and California Community Colleges) to augment various K-12 program activities (see Figure 2). We discuss these proposals later in this *Analysis*.

Figure 1**K-12 Education Budget Summary**

1997-98 Through 1999-00
(Funding in Millions)

	Actual 1997-98	Estimated 1998-99	Proposed 1999-00	Change From 1998-99	
				Amount	Percent
K-12 Proposition 98					
State (General Fund)					
Cash	\$20,098.0	\$22,066.4	\$23,075.8	\$1,009.4	4.6%
Loan repayment	200.0	250.0	310.0	60.0	24.0
Local property tax revenue	9,076.8	9,252.2	9,730.8	478.6	5.2
Subtotals, Proposition 98	(\$29,374.8)	(\$31,568.6)	(\$33,116.6)	(\$1,548.0)	(4.9%)
Other Funds					
General Fund					
Teachers' retirement	\$876.9	\$245.1	\$854.3	\$609.2	248.6%
Bond payments	780.2	859.4	956.9	97.5	11.3
Other programs	125.0	237.3	444.7	207.4	87.4
State lottery funds	582.0	757.1	785.6	28.5	3.8
Other state funds	65.7	57.5	47.0	-10.5	-18.3
Federal funds	3,255.7	3,610.6	3,931.6	321.0	8.9
Other local	2,756.0	2,759.3	2,763.3	4.0	0.1
Totals	\$37,816.3	\$40,094.9	\$42,900.0	\$2,805.1	7.0%
K-12 Proposition 98					
Average Daily Attendance (ADA)	5,337,036	5,443,440	5,519,732	76,292	1.4%
Amount per ADA (excluding loan)	\$5,466	\$5,752	\$5,944	\$192	3.3%

Program Redirections. With regard to the Proposition 98 base for 1999-00, the Governor effectively augments the amount of funds available for new programs by redirecting \$191 million currently budgeted for four

existing programs—deferred maintenance, after-school programs, Beginning Teacher Support and Assessment program, and the Healthy Start Pregnancy Prevention program. The budget proposes to delete in the budget year \$115 million currently allocated to deferred maintenance in order to have this amount available for other ongoing purposes. Due to implementation delays in the other three programs, the budget assumes that \$76 million currently appropriated to these programs will remain unspent at the close of the current year. The budget proposes to reappropriate these amounts for expenditures in 1999-00 in place of what the budget otherwise would have provided out of the 1999-00 Proposition 98 “base.” This proposal, if adopted by the Legislature, would “free up” a total of \$76 million in the 1999-00 base for new programs, but only on a one-time basis. The Legislature consequently would need to “find” \$76 million in the 2000-01 base to cover the ongoing costs of the three programs.

Figure 2	
K-12 Education Governor’s Budget Proposals for Current-Year Revenue	
<i>(In Millions)</i>	
Proposed Augmentations	
Special education deficit	\$52.2
Digital high school	44.2
California Student Information Services	5.0
Oxnard extended year pilot	4.3
Moorpark desegregation	1.5
Los Alamitos desegregation	0.1
Standardized accounting code structure	0.3
Total	\$107.5^a
Sources:	
1998-99 Proposition 98 Savings	
K-12 mandates	\$93.4
Community Colleges	14.1
Total	\$107.5
^a Total does not add due to rounding.	

Figure 1 also shows that the budget includes expenditures of \$3.9 billion in federal funds in 1999-00. This is \$321 million, or 8.9 percent, more than estimated federal expenditures for California's schools in the current year. This change results primarily from increases to existing programs—Title I (\$174 million) and special education (\$51 million).

GOVERNOR'S BUDGET PROPOSALS

The budget proposes a General Fund K-12 Proposition 98 funding increase of \$1 billion for 1999-00. (After including \$479 million in higher estimated property tax allocations, total *new* Proposition 98 spending in K-12 education is \$1.5 billion.) Figure 3 highlights the major changes proposed for K-12 Proposition 98 funds in the budget year.

The major budget proposals funded under Proposition 98 include:

- \$344 million for enrollment growth, based on a projected ADA increase of 1.4 percent in 1999-00.
- \$571 million to provide a 1.83 percent cost-of-living adjustment (COLA).
- \$200 million to reduce the revenue limit "deficit factor."
- \$160 million for school accountability initiatives.
- \$176 million for reading improvement initiatives.

PROPOSITION 98 SPENDING BY MAJOR PROGRAM

Figure 4 (see page 18) shows Proposition 98 spending for major K-12 programs. "Revenue limit" funding (available for school districts to spend on general purposes) accounts for \$22.4 billion in 1999-00, or about 68 percent of total Proposition 98 expenditures. The state General Fund supports about 57 percent of revenue limit funding, and local property taxes provide the remaining 43 percent.

The largest "categorical" program (an expenditure earmarked for a specified purpose) is special education. The budget proposes to increase special education funding by \$120 million in 1999-00 to \$2.2 billion. The K-3 class size reduction program, started in 1996-97, will be the second largest categorical program in 1999-00. Due to significant downward revisions in K-3 enrollment, total funding for class size reduction decreases by \$5 million after including a COLA increase, resulting in total

Figure 3	
Governor's K-12 Budget Proposals Proposition 98 General Fund	
<i>(Dollars in Millions)</i>	
1998-99 (revised)	\$22,066.4
Enrollment Growth	
Revenue limits	\$288.5
Categorical programs	55.2
Subtotal	\$343.7
Cost-of-Living Increases	
Revenue limits	\$464.7
Categorical programs	106.0
Subtotal	\$570.7
Funding Adjustments	
Digital high school	\$56.9
Special education	55.3
High school class size reduction	44.5
Test development and administration	37.9
Child care	25.7
Adult education	25.0
Mandates	-56.7
Other	10.5
Subtotal	\$200.2
Program Expansion	
Paraprofessional training	\$6.6
Subtotal	\$6.6
New Programs	
Deficit reduction	\$200.0
Accountability	160.0
Reading improvement initiatives	102.0
English language initiatives	74.0
Enhancing teacher quality	22.8
Subtotal	\$558.8
Offsetting Adjustments	
Property tax growth	-\$478.4
Deferred maintenance reduction	-115.0
One-time base adjustments	-76.1
Subtotal	-\$669.5
1999-00 (proposed)	\$23,075.8
Change from 1998-99 (revised)	
Amount	\$1,009.4
Percent	4.6%

Figure 4**Major K-12 Education Programs
Funded by Proposition 98***General Fund (Dollars in Millions)*

	Estimated 1998-99	Proposed 1999-00	Change From 1998-99	
			Amount	Percent
Revenue Limits				
Schools and counties	\$21,492.5	\$22,154.9	\$662.4	3.1%
Less local revenue ^a	-9,081.3	-9,547.3	-466.0	5.1
Subtotals	(\$12,411.1)	(\$12,607.6)	(\$196.5)	(1.6%)
Mega-Item				
Desegregation	\$613.5	\$644.5	\$31.0	5.1%
Economic impact aid	400.9	414.0	13.1	3.3
Home to school transportation	519.1	538.1	19.0	3.7
School improvement	394.5	407.3	12.8	3.2
Other programs	435.8	454.0	18.2	4.2
Subtotals	(\$2,363.8)	(\$2,457.9)	(\$94.1)	(4.0%)
Existing Programs				
Special education	\$2,111.9	\$2,231.9	\$120.0	5.7%
K-3 class size reduction	1,545.5	1,540.6	(4.9)	-0.3
Child development	843.6	835.9	(7.7)	-0.9
Instructional materials	580.6	586.1	5.5	0.9
Adult education	497.8	544.6	46.8	9.4
ROC/P	309.4	321.7	12.3	4.0
Summer school	210.8	222.4	11.6	5.5
Staff development day buy-out	195.0	221.9	26.9	13.8
Deficit factor buy-out	—	200.0	200.0	—
Deferred maintenance	141.2	19.9	(121.3)	-85.9
Other	774.9	857.4	83.6	10.8
Subtotals	(\$7,209.7)	(\$7,582.2)	(\$372.5)	(5.2%)
New or Revised Programs				
Accountability	—	\$160.0	\$160.0	—
English language learner	—	60.0	60.0	—
Reading initiatives	—	108.0	108.0	—
Teacher review	\$80.6	100.0	19.4	24.1%
Subtotals	(\$80.6)	(\$428.0)	(\$347.4)	(431.2%)
Totals^b	\$22,066.4	\$23,075.8	\$1,009.4	4.6%

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

^b Totals may not add due to rounding.

spending of \$1.5 billion. All remaining categorical programs are proposed to increase by \$351 million, due to enrollment growth and COLA.

Governor’s “Raising Expectations, Achievement, And Development” in Schools Proposal

Essentially everything that is “new” in the Governor’s budget for K-12 education is part of his proposal called “Raising Expectations, Achievement, and Development in Schools” (READ). His proposal calls for various new programs in three basic areas: (1) improving reading skills, (2) enhancing professional staff quality, and (3) improving accountability in schools. We examine the Governor’s proposals in these three areas separately in the detailed analysis that follows this introduction.

The READ programs total \$444 million in new spending as follows:

- \$388 million from the General Fund, as part of spending to satisfy the Proposition 98 guarantee for the budget year.
- \$12.5 million from the General Fund (non-Proposition 98).
- \$44 million from federal funds.

Figure 5 (see next page) shows the proposed spending for each program in READ. Although some of the proposed spending would occur in higher education, all of it is directed at improving outcomes in the public K-12 schools. As the figure shows, READ includes \$7 million in proposed appropriations to the University of California (UC) and \$22 million to the California Community Colleges (CCC).

Figure 5 also indicates that the Governor proposes that most READ funding be appropriated in the special session for education, rather than in the *1999-00 Budget Bill*. In fact, the Governor seeks a total of \$413 million in the four special session bills that constitute his legislative package for READ. (Because this amount includes \$83 million of redirected funds, *new* spending in the four bills totals \$330 million.) The remaining \$114 million is funded through the budget bill.

LAO Special Session Guide to K-12 Reform

Just before the start of the special session, we released *A Special Session Guide to K-12 Reform*. In that report, we outlined general principles that we felt would help guide the Legislature’s consideration of issues in the special session. Those principles include:

Figure 5**Governor's "READ"^a Proposals**1999-00
(In Millions)

Program	Amount	Fund	Appropriation Authority
Improving Reading Skills:			
Intensive reading instruction (K-4)	\$ 75.0	Proposition 98	AB 2 x
"Classroom Library" books (K-4)	25.0	Proposition 98	Bill unspecified
Public Involvement Reading Campaign	4.0	General	AB 2 x
Reading awards	2.0	Proposition 98	AB 2 x
Secondary school reading instruction	5.0	Federal	Budget bill
English Language Learners (ELL) supplemental instruction	50.0	Proposition 98	Budget bill
ELL: staff development	10.0	Proposition 98	Budget bill
English Language Development Test	14.0	Proposition 98	Budget bill
Preschool reading guidelines	1.0	Federal	Budget bill
Enhancing Professional Quality:			
Reading Professional Development Institutes:			
Administration (UC)	\$6.0	General	AB 2 x
Teacher stipends	6.0	Proposition 98	AB 2 x
Teacher scholars (UC)	0.5	General	AB 2 x
Principal leader institutes (UC)	0.5	General	AB 2 x
Teacher peer review and assistance	100.0	Proposition 98	AB 1 x
Teacher and reading development Partnerships (CCC)	10.0	Proposition 98	Budget bill
Paraprofessional teacher training	6.6	Proposition 98	Budget bill
	3.4	Federal	Budget bill
Teacher credential fee waiver	1.5	General	Budget bill
Accountability:			
High school exit exams	\$2.0	Federal	SB 2 x
Planning/implementation grants	32.3	Federal	SB 1 x
	10.0	Proposition 98	SB 1 x
Performance awards	150.0	Proposition 98	SB 1 x
High School Report Cards (CCC)	10.6	Proposition 98	Budget bill
Middle College High Schools (CCC)	1.8	Proposition 98	Budget bill
Subtotals	\$527.2		
Less redirected funds	-83.2		
Totals, new spending	\$444.0		

^a Raising Expectations, Achievement, and Development.

- The state should clearly identify *what* it expects the public school system to accomplish.
- The state should give as much discretion as possible to the local districts and schools as to *how* these expectations are accomplished.
- The state should use its power to support and improve incentives for good decision-making at the local level.

Our special session guide also suggested principles for improving teacher quality and accountability, and outlined ways of reforming categorical program funding. Much of the detailed analysis of the Governor's budget that follows is based on, and will refer to, this special session guide.

BUDGET ISSUES

K-12 Education

K-12 PRIORITIES

Our recommendations for K-12 programs in this and succeeding section of the *Analysis* are largely consistent with—in many instances identical to—the Governor’s budget priorities. In some instances we recommend changes in program details, without recommending changes in program amounts. We withhold recommendation on a few spending requests, pending clarification for the Legislature of important details. Finally, we make recommendations, in some cases, to reduce program spending and, in other cases, to augment program spending.

In summary, our major recommendations would:

- Provide that the first appropriation for “Governor’s Performance Awards” be in the same fiscal year that, as a practical matter, the awards can be distributed to schools (2000-01). This has the effect of increasing by \$150 million (one-time) funding available for schools at the start of the coming school year.
- Increase K-14 education funding by \$111 million based on our revised estimate of the Proposition 98 minimum funding guarantee for 1999-00.
- Restore \$115 million for deferred maintenance of school buildings.
- Increase school district and school-site spending flexibility to better match funding with actual site needs.
- Improve the effectiveness of spending intended to help English language learners rapidly master English, consistent with the

purposes of Proposition 227, by broadening the list of permitted expenditures for that proposition’s annual appropriation.

- Increase technical oversight of the California School Information System, a critical information tool for school accountability in early stages of development.
- Solve a longstanding technical budgeting problem that results in perennial underfunding of jail education.

Additional Proposition 98 Funds

We recommend that the Legislature increase its estimate of the Proposition 98 minimum guarantee for K-14 education by \$111 million over the Governor’s budget, due to upward revision of per-capita personal income growth.

Figure 1 shows the Proposition 98 amounts available for 1998-99 and 1999-00 under the Governor’s budget forecast and under our forecast. For 1998-99 the forecasts are identical. Although we project higher General Fund revenue than the administration for 1998-99, and a higher minimum funding guarantee under Proposition 98, the increase in the minimum guarantee has no practical effect on current-year funding. This is because the amount already appropriated for Proposition 98 purposes in the current year is more than enough to satisfy either the guarantee amount forecast by the Governor or our office.

Figure 1		
Governor’s Budget and LAO Proposition 98 Forecasts		
<i>(Dollars in Millions)</i>		
Forecast	1998-99	1999-00
Governor’s Budget	\$35,268	\$37,009
LAO	35,268	37,120
Difference with budget	\$0	\$111

For the budget year, as Figure 1 shows, we estimate that the Proposition 98 guarantee will be \$111 million higher than presumed in the Governor’s spending plan. This increase is due to our upward revision of per capita personal income growth (Proposition 98’s “test 2” inflation factor) from 3.4 percent to 3.7 percent.

Figure 2 summarizes how our K-12 recommendations, if adopted by the Legislature, would create new spending opportunities for education from Proposition 98 resources. As the figure shows, our recommendations would make available \$155 million of one-time Proposition 98 funds and \$218 million of ongoing funds.

Figure 2		
Proposition 98 Funds Made Available by LAO Recommendations		
<i>(In Millions)</i>		
Recommendation	Amounts	
	One-Time	Ongoing
Revise Proposition 98 guarantee	—	\$110.9
Performance awards	\$150.0	—
School/classroom libraries	—	100.5
Reading development institutes	—	6.0
Lease-purchase savings	4.3	—
Moorpark desegregation	0.4	0.8
Totals	\$154.7	\$218.2

Figure 3 summarizes how we recommend that the Legislature spend these resources.

Figure 3		
LAO Recommended Reallocation of Proposition 98 Funds		
<i>(In Millions)</i>		
Recommendation	Amounts	
	One-Time	Ongoing
Deferred maintenance	—	\$115.0
School/classroom libraries	\$100.5	—
Inmate education	15.0	—
Staff development	—	12.0
School district block grants	39.2	91.2
Totals	\$154.7	\$218.2

Place Residual Funds into School District Block Grants

We recommend that the Legislature provide \$91 million of ongoing funds, and \$39 million of one-time funds, for school district block grants. As one potential use of these grants, we recommend that the Legislature authorize school districts to make bonus payments to credentialed teachers at schools that face severe challenges in recruiting/retaining teachers.

The last of the recommended reallocations of Proposition 98 resources shown in Figure 3 is school district block grants. In effect, we are recommending that school district block grants be used for the allocation of residual amounts of Proposition 98 monies that exist once other appropriation decisions are made. On the basis of our other spending recommendations, \$91 million of ongoing funds, and \$39 million of one-time funds, would be available for these block grants. These grants, which would be apportioned on the basis of average daily attendance (ADA), would allow school districts maximum flexibility to meet local needs.

As one potential use of the block grants, we recommend that the Legislature authorize school districts to make one-time bonus payments to teachers at schools that face severe challenges in recruiting and retaining credentialed teachers. As we discuss in the section “Teacher Quality” (later in this chapter), schools in poor urban and poor rural areas face severe to extreme challenges in this regard. In some of these districts, more than half of the newly hired teachers hold emergency permits instead of teaching credentials. In many instances, as soon as the emergency permit holders obtain a credential, they are lured away by more affluent areas that are perceived by the teachers as being “easier” to work in. This problem has been exacerbated by class size reduction and its effects on teacher labor market dynamics.

For these reasons, we recommend that the Legislature authorize school districts to use block grant monies to help “level” the recruitment/retention playing field. Specifically, we recommend that the Legislature authorize the local option use of recruitment/retention payments to credentialed teachers at schools serving high proportions of low-income students, as defined in Section 69613 (e) of the Education Code. (This is the same set of schools designated as low-income “teacher shortage” schools under the state’s Assumption Program of Loans for Education program.)

Our other detailed program discussions and recommendations for K-12 education follow this section.

Approve Proposed COLA Calculation

We recommend that the Legislature approve the proposed trailer bill language to change the way the K-12 cost-of-living adjustments (COLAs) are calculated. This would replace a flawed calculation methodology with an accurate way of estimating inflation. For 1999-00, it would result in a 1.83 percent COLA for schools.

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. Sometimes, this is a straight-forward calculation.

It becomes more complicated when the inflation index is rebenchmarked by the U.S. Department of Commerce, something that happens periodically. 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 comparison of revised to unrevised data produces anomalous results. This is the case for 1999-00. Due to revision in the index, the statutory formula calls for a 0.3 percent COLA. This does not come close to reflecting actual inflation, by anyone's estimation.

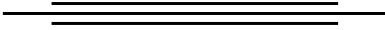
The budget proposes trailer bill language that would delete the requirement to compare revised data with prior-year unrevised data. The new formula would use only revised data so that COLAs reflect the best current estimate of inflation that occurred during the past year. This change would result in a COLA for the 1999-00 budget of 1.83 percent. An identical proposal was made in the 1998-99 budget, but was not adopted due to disputes over the revenue limit deficit factor.

Change Is Appropriate. Figure 4 displays, for 1991-92 through 1998-99, a comparison between the COLAs calculated using the current statutory formula and the proposed calculation. In addition, we show actual inflation—measured by the most recently revised inflation index for state and local government purchases. As Figure 4 shows, the statutory COLA methodology yields erratic and sometimes bizarre results. For example, in 1992-93 and 1993-94 (years when the series was rebenchmarked) the statutory formula resulted in *negative* COLAs. In these years the Legislature disregarded the statutory calculation and used the proposed formula instead. These types of results can occur whenever the series is rebenchmarked, approximately every four to five years. Even in other years, a review of Figure 4 (see next page) indicates that the statutory calculation is often an inaccurate measure of inflation. Therefore, we recommend

the Legislature approve the proposed trailer bill language because the proposal is a more consistent and accurate reflection of inflation.

Figure 4			
Cost-of-Living Adjustment (COLA) Calculation Comparison			
<i>1990-91 Through 1999-00</i>			
	Statutory COLA Calculation^a	Budget's Proposed Methodology	Actual Inflation
1990-91	4.76%	4.68%	3.83%
1991-92	4.69	4.61	4.73
1992-93	-19.32	2.75	2.61
1993-94	1.92	1.49	2.35
1994-95	3.25	2.33	2.37
1995-96	3.31	2.77	2.47
1996-97	-15.31	3.21	3.08
1997-98	2.61	2.62	2.01
1998-99	3.95	2.18	2.09
1999-00 (est.)	0.29	1.83	—

^a The statutory COLA was not always adopted each year by the Legislature.



REVENUE LIMITS

School district revenue limits provide general purpose support for schools. Revenue limits were established in 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 two-thirds of state support to K-12 school districts is provided through the revenue limit mechanism.

The state keeps track of two revenue limits—(1) base revenue limits and (2) deficated revenue limits. The base revenue limit grows each year by the statutory cost-of-living adjustment (COLA) without regard to the actual COLA that is provided. During the recession years of the early 1990s, the statutory COLA was not fully funded. Instead of adjusting base revenue limits to reflect these lower COLAs, a second set of revenue limits were created—so called “deficated” revenue limits. Deficated revenue limits reflect the amount that the state actually provides to school districts and county offices of education. The state keeps track of the difference between base revenue limits and deficated revenue limits—referred to as the revenue limit deficit factor. The deficit factor reduces base 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 recent 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.

Deficit Factor Buy-Out

We recommend approval of \$200 million for revenue limit deficit factor buy-out as a means of increasing general purpose funding for school districts and county offices of education.

The Governor's budget proposes \$200 million to buy-out a portion of the revenue limit deficit factor. This would reduce the deficit factor from 8.8 percent to 8.0 percent. It would increase revenue limits by around \$35 per student, for an average revenue limit of \$4,000 per student.

Funding for Deficit Factor Buy-Out

Increases General Purpose Revenue. The budget includes a 1.83 percent revenue limit COLA for 1999-00 based on a proposed change in the statutory COLA calculation. In preparing the budget, the Department of Finance (DOF) calculated the existing statutory COLA to be 2.42 percent. The difference between the two COLA calculations is around \$200 million. Since the new statutory formula would provide schools with \$200 million less in COLA, the administration decided to provide \$200 million to buy-out the deficit factor, in order to keep general purpose funding for schools relatively "whole."

Our calculation of the statutory COLA, however, generates a level of about 0.3 percent instead of 2.42 percent. We have discussed our findings with DOF staff and they agree that our calculation is correct. Because its COLA calculation was wrong, the administration's stated rationale for providing the \$200 million for deficit reduction is gone. However, in our view it still makes sense to provide additional general purpose funds to schools as a means of increasing local spending flexibility. For this reason, we recommend approving \$200 million to reduce the deficit factor.

Adjust the Deficit Factor to Accurately Reflect Funding Growth

We recommend that the Legislature adopt trailer bill language to adjust school district and county office of education base revenue limits and the deficit factor to more accurately reflect the adjustments provided to revenue limits over time.

In the past we have recommended eliminating the deficit factor (see 1998-99 *Analysis*, page E-46). Nevertheless, the Legislature included a deficit factor as part of the adopted 1998-99 budget package. If the Legislature desires to continue keeping track of a deficit factor, we recommend adjusting it to better reflect (1) actual inflation and (2) all general purpose funding added by the Legislature over the years.

What Is the Appropriate Deficit Factor? According to DOF the deficit factor is currently 8.8 percent. We agree that DOF's calculation is correct based on current statutory requirements. However, the strict use the of

the statutory COLA as a measure of inflation overstates actual inflation as measured using the most recently revised inflation index for state and local government purchases. This is due in part because it is based on preliminary data that is later revised.

In addition to statutory COLAs, revenue limit funding has also received other funding adjustments. Figure 1 compares our best measure of actual inflation over the period 1990-91 through 1998-99 to actual revenue limit adjustments. These adjustments come in three forms:

- **Annual COLA.** This amount is determined by a statutory formula and is meant to approximate inflation on a year-to-year basis. Figure 1 shows the COLAs actually provided. As mentioned above, during the recession in the early 1990s COLAs were reduced or withheld. The amount that was withheld was tracked as the deficit factor. During this period, a 20 percent increase in revenue limit funding is attributable to COLAs.

Figure 1					
Revenue Limit Adjustments Compared to Inflation					
<i>1990-91 Through 1998-99</i>					
	Actual Inflation	Revenue Limit Adjustments			Total Adjustment
		COLA	+ Deficit Payback	+ Equalization	
1990-91	3.83%	3.52%	—	—	3.52%
1991-92	4.73	0.50	—	—	0.50
1992-93	2.61	1.96	—	—	1.96
1993-94	2.35	—	-0.56%	—	-0.56
1994-95	2.37	—	—	—	—
1995-96	2.47	2.73	1.03	1.08%	4.84
1996-97	3.08	3.21	1.52	2.42	7.15
1997-98	2.01	2.65	—	—	2.65
1998-99	2.09	3.95	—	—	3.95
Cummulative Increases	28.6%	20.0%	2.0%	3.5%	26.4%

- **Deficit Payback.** These increases represent payments made explicitly towards reducing the deficit factor. All school district and county office of education revenue limits are increased by an amount equivalent to the percentage reduction in the deficit. As the figure shows, the state made these types of payments in

1995-96 and 1996-97. (In 1993-94, a negative adjustment was made on a technical basis.) Over the period, these adjustments totaled 2 percent.

- **Equalization.** When available, additional funds are provided to districts with revenue limits below the statewide average. This funding brings their revenue limits closer to the statewide average. These payments were made the same years as the deficit paybacks, providing an additional 3.5 percent increase.

Adjusting the Deficit Factor Makes Sense. Over the decade, the Legislature approved cumulative increases in funding for revenue limits totaling 26.4 percent (including all adjustments), compared to actual inflation of 28.6 percent. This means that, when all adjustments are taken into account, an increase of only 1.7 percent (based on a compounded calculation) would be needed to make funded revenue limits fully adjusted to inflation. Thus, we find that compared to actual inflation the published deficit factor of 8.8 percent is too high.

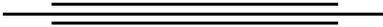
Figure 2 summarizes our calculation of the deficit factor including various adjustments and the amount required to pay back the deficit. Depending on how the deficit factor is measured, it would take between \$435 million to \$2.2 billion of additional resources to buy-out the deficit factor. If the Legislature approves \$200 million for deficit buy-out and adopts an adjusted deficit factor of 1.7 percent, the remaining deficit would require only an additional \$235 million to buy-out.

Our calculation of the deficit factor is consistent with the Governor's recommended revised statutory COLA calculation because in both cases, revised inflation data, rather than unrevised data, is used to determine the appropriate amount. Adjusting revenue limits to more accurately reflect growth in actual inflation is sensible and reasonable. For these reasons, we recommend the Legislature adopt trailer bill language to adjust school district base revenue limits to more accurately reflect funding provided to revenue limits over time.

The purpose of a deficit factor is to measure the extent to which school districts' purchasing power (for general purpose funding) has not kept pace with inflation. It is in the Legislature's interests to have this measure be as accurate as possible. This would help assure that the Legislature's decisions to allocate funds for K-12 programs are based on the best information available. Our recommended approach would provide the Legislature with the accurate measure it should have, because our approach is based on a more accurate measure of past inflation, and a more complete

accounting of general purpose funding the Legislature has provided to school districts.

Figure 2		
Cost to Buy-Out Deficit Factor		
<i>(Dollars in Billions)</i>		
	Percent	Amount
DOF calculation	8.8%	\$2.2
LAO calculation without equalization	5.2	1.3
LAO calculation with equalization	1.7	0.4



THE GOVERNOR'S READING INITIATIVES

IMPROVING READING SKILLS

The Governor has proposed a number of initiatives and funding of \$186 million in the budget year to improve student achievement in reading. These initiatives are outlined in Figure 1.

Problems That the Governor's Initiatives Seek to Address

The Governor's initiatives seek to address the low performance level in reading shown by many of California's K-12 students. For example, according to the National Assessment of Educational Progress (NAEP), California's public schools were tied for last place among the states in reading, with 56 percent of its fourth-grade students scoring below the level of basic competency. Only 18 percent of the public school fourth-graders tested in California scored at or above what the NAEP defines as "proficient" skill level. The fact that nearly 25 percent of California's students are "English language learners"—for whom English is a second language—clearly is a factor and adds to the state's challenge in raising reading achievement. In response to these problems, the Governor has identified improving reading achievement as one of three issue areas for the Legislature's education special session.

Putting These Problems in Context

The Governor has called for focus on reading as a "gateway" skill, crucial to success in academic areas for all students. Ample research supports this view. The link between reading and other skills also may help explain, in part, why California's students test so poorly in other academic areas. In 1996, for example, only 11 percent of California's fourth graders scored at a "proficient" level in math on NAEP exams; only 18 percent of eighth graders scored at a proficient level in math, and only 20 percent scored at a proficient level in science. And while the Governor's proposals focus attention on the elementary grades, on average

Figure 1

Governor's Reading Initiatives

1999-00

<i>Elementary School Intensive Reading Program</i>	\$75 million for extra reading instruction for students in grades K-4. Program requirements and appropriation are in AB 2x (Mazzoni and Cunneen). Purposes: (1) increased instruction to pupils who have difficulty learning to read and (2) "stimulating and enriching opportunities" for all pupils to increase reading skills and enhance enjoyment of reading. The intensive reading instruction is to be delivered four hours per day for six continuous weeks during summer or intersession, unless facility constraints or other educational reasons require an alternative.
<i>Classroom Libraries</i>	\$25 million to supply books to K-4 classrooms.
<i>Governor's Reading Call to Action Campaign</i>	\$4 million to develop and conduct a public involvement campaign to promote reading.
<i>Governor's Reading Awards Program</i>	\$2 million to provide \$5,000 to the 400 elementary and middle schools whose students read the most books on the Superintendent of Public Instruction's California Reading Lists.
<i>Secondary School Reading Instruction</i>	\$5 million in federal funds to identify and disseminate exemplary instructional models for use in teaching reading to high school students, with emphasis on correcting reading deficiencies.
<i>English Language Learners Supplemental Instruction</i>	\$50 million for supplemental instructional time for limited-English-proficient pupils (English language learners).
<i>English Language Learners Professional Development</i>	\$10 million for professional development of teachers, administrators, and other staff who provide instruction and support to English language learners.
<i>English Language Development Test</i>	\$14 million to administer a test to assess the English proficiency of all English language learners.
<i>Preschool Reading Development Guidelines</i>	\$1 million in federal funds to publish and distribute preschool reading development guidelines and to train child care providers in their use.

students at every level in California's K-12 system perform poorly compared with their counterparts in the rest of the nation, as shown from both NAEP and Standardized Testing and Report (STAR) test results.

As we discuss below, over the years the Legislature has established a variety of programs designed to address the need for supplemental instruction in reading and other academic subjects where improvement is needed. It is also important to note that our educational system is complex, and it is not yet known how some very recent changes will affect student achievement. For instance:

- What impact will the recently adopted class size reduction in grades K-3 have?
- What impact will result from the corresponding influx of less-experienced and in some cases less-qualified teachers?
- What effect will Proposition 227's English language immersion approach have on English language skills, including reading?

Finally, to provide context for the Legislature's consideration of the Governor's reading initiatives, it is important to ask what specific improvements in reading achievement the administration intends to accomplish with these initiatives. As of this writing, the administration had not stated the specific results expected from its program initiatives to raise reading achievement. We believe it is important for the Legislature to decide at the outset the specific objectives and outcomes it expects from these new programs. The Legislature needs this information to know whether it may be investing too little, or too much, and to be able to take informed corrective action, if needed, in the future.

Existing Programs Addressing These Problems

Most of the focus in the Governor's reading proposals is on improving reading skills for three somewhat overlapping groups of students: (1) students in grades K-4 experiencing difficulty with reading, (2) students of all reading skill levels in grades K-4, and (3) English language learners in all grades. The Governor's proposals should be considered in the context of existing programs with related objectives—programs that seek to improve reading and other academic skills by providing additional instructional time or specialized instructional assistance. Figures 2, 3, and 4 summarize these existing programs by three program types:

- Programs providing remedial assistance to students lacking the skills for successful academic performance (Figure 2).

- Programs that provide additional instructional time to enhance the skills of students generally, not just those in need of remedial assistance (Figure 3, see next page).
- Supplemental instructional programs provided through larger blocks of funding such as Economic Impact Aid and federal funding (Figure 4, see page 39).

Figure 2

Existing Remedial Programs

Remedial Summer School, Grades 7-12^a

- **Funding:** \$72 million budget year.
- **Program:** Districts *required* to offer to students in grades 7-12 who are not meeting proficiency standards in basic skill areas (including reading comprehension, writing, and computational skills). In addition, districts *may* offer supplemental instruction in math, science, or other core academic areas.
- **When:** Summer; in some cases Saturdays or after school.
- **Funding Basis:** Districts reimbursed for costs of classes offered (120 hours/pupil times an hourly rate); no cap on number of funded pupils.

Remedial Supplemental Instruction, Grades 2-9^b

- **Funding:** \$107 million budget year (\$76 million grades 2-6; \$31 million grades 7-9).
- **Program:** Districts *required* to offer to retained students in grades 2-9; districts *may* offer to students in grades 2-6 who have deficiencies in math, reading, or written expression.
- **When:** Summer, Saturdays, before or after school, and intersession.
- **Funding Basis:** Districts *entitled* to reimbursement for costs to serve up to 5 percent of students in grades 2-6 (120 hours times an hourly rate times up to 5 percent of enrollment). Depending on funding availability, districts *may* be reimbursed for up to 10 percent of these students. For grades 7-9, funding rules same as remedial summer school.

Miller-Unruh Basic Reading Program^c

- **Funding:** \$33 million budget year.
- **Program:** Optional reading program in which reading specialists provide supplemental instruction to individuals and small groups of students in grades K-6, with top priority to kindergarten and first grade. Specialist caseloads cannot exceed 60 students.
- **When:** During the regular instructional day in special "pull-out" sessions.
- **Funding Basis:** Competitive grants pay for half the salary of reading specialists; priority funding to districts with low test scores; funds about 1,000 reading specialists in 330 districts.

^a Chapter 100, Statutes of 1981 (AB 777, Greene).

^b Chapter 743, Statutes of 1998 (AB 1639, Sweeney).

^c Legislative authority has "sunset." Program still funded in annual budget acts.

Figure 3

**Existing Programs to Improve Academic Skills
(Not Limited to Remedial)**

Core Academic Summer School

- **Funding:** \$121 million budget year.
- **Program:** Districts may offer to students in all grades; courses in math, science, English as a second language, and other core curriculum areas given first priority.
- **When:** Summer; in some cases Saturdays or after school.
- **Funding Basis:** Generally, districts reimbursed for costs of classes to serve up to 7 percent of students in all grades (120 hours times an hourly rate times up to 7 percent of enrollment).

After School Learning and Safe Neighborhoods Partnership^a

- **Funding:** \$50 million budget year.
- **Program:** After school programs for students in grades K-9 that include (1) homework and/or tutoring in language arts, math, history, social science; or science, and (2) recreational activities. Services provided by instructional aides and volunteers.
- **When:** After school on each regular school day for at least three hours and until at least 6 p.m. Supplemental grants available for summer, intersession, and vacation periods.
- **Funding Basis:** Locally matched competitive grants generally capped at \$150,000 for elementary schools and \$200,000 for middle and junior high schools. Priority given to schools with specified minimum percentages of pupils eligible for federal free or reduced-price lunches.

^a Chapter 318, Statutes of 1998 (AB 2284, Torlakson), and Chapter 319, Statutes of 1998 (AB 1428, Ortiz).

Figure 4**Supplemental Instructional Programs Provided Through Larger Blocks of Funding**

- 

Economic Impact Aid (EIA). Apportioned to districts based on the number of poor students and English language learners. The budget proposes \$414 million for the program in 1999-00. Funds can be used for a variety of remedial programs for students in grades K-12, including the Back to Basics Summer School Reading Program of 1996. (Chapter 931, Statutes of 1996 [AB 2265, Villaraigosa]).
- 

Title I of the Federal Improving America's Schools Act (IASA). Allocated to districts based on the number of poor students. In 1998-99, California received over \$950 million in Title I funding. Funding enables schools to offer various supplemental programs for additional instructional time, including programs in reading, math, and language arts.
- 

Title VII of the Federal IASA. Competitive grants to schools and districts with high concentrations of English language learners to fund compensatory education programs for these pupils. For federal fiscal year 1999 California will receive \$110 million for 301 grants.
- 

21st Century Learning Centers. California received 33 of the 282 grants given nationally in 1998 under this federal program. It requires "expanded learning opportunities" and gives competitive priority for academic services that address core curricular areas. \$200 million will be awarded nationally in 1999.
- 

Federal Reading Excellence Act. These out-of-school tutoring programs are funded by the federal Reading Excellence Act, which will allocate \$241 million nationally in grants to states.
- 

Student Academic Partnership Program. State program (Chapter 811, Statutes of 1997, SB 316, [Hayden]), supported with federal funds (\$5 million per year for three years), providing grants to 22 districts for tutoring by college students for grades K-6 in reading, math, and writing using the America Reads model.
- 

Reading Recovery. Districts and schools can use discretionary funding such as private grants for the Reading Recovery program, which has been adopted in over 400 districts in California; program involves a year of course work for selected teachers who then offer remedial assistance to individual first graders on a short-term intensive basis.

In reviewing these existing programs, an important point emerges: a wide array of programs providing additional instructional time outside the regular classroom already exists, and different schools have different mixes of these programs in place. This being so, we believe it is critical for districts to have flexibility in using new and existing funding for additional instructional time in ways that best meet their unserved needs.

Create a Consolidated Item for “Improving Academic Skills”

For 1999-00, we recommend the Legislature create a new consolidated item for improving academic skills in order to better match funding with local needs. The Legislature should incorporate the Governor’s two proposed supplemental instruction reading programs into this item.

The Need for Increased Local Flexibility. Many factors affect the needs that different schools and districts may have for programs to raise academic achievement. These factors include:

- The characteristics of the student population (the number of English language learners, for example).
- The nature of existing programs. (After school programs may meet a district’s needs better than summer school, or the reverse, depending on what programs already are in place.)
- The needs of students in a given district may change over time, with the influx of a new wave of immigrants for example.
- The need for programs in different subject areas may vary. For example, as schools adopt more effective programs in one area such as reading, they may need to place a greater emphasis on improving math skills.

These variables argue for maximum flexibility at the local level to select an appropriate mix of programs and to determine the amount of resources to put into different programs.

We believe that, given the variety of existing supplemental instructional programs and the different needs that exist in different districts, it makes sense to consolidate existing supplemental instructional programs into one item that would give districts more flexibility to meet local priorities. In addition, rather than create additional categorical programs that restrict funding to targeted populations and subjects, we believe the Governor’s two proposed new supplemental programs should be added to this item. Accordingly, we recommend that the Legislature establish a

new consolidated item for improving academic skills. Figure 5 shows the seven categorical programs that we would roll into this item.

Figure 5	
Programs to Be Consolidated in LAO's Improving Academic Skills Item	
<i>1999-00 (In Millions)</i>	
Program	Amount
Remedial Summer School	\$103
Core Summer School	121
Remedial Supplemental Instruction	76
Miller-Unruh Reading Program	33
After School Learning and Safe Neighborhoods	50
K-4 Intensive Reading	75
English Language Learners Supplemental Program	50
Total Funding	\$508

How the Proposed Item Would Work. Our proposal would pattern the "Improving Academic Skills" item after the mega-item (Item 6110-230-0001) that has been part of the K-12 budget for several years, with some important differences. The mega-item funds a diverse array of programs under a single item. Districts receive the same amounts they would have received if the programs were funded outside the general mega-item. The mega-item allows districts to spend up to 15 percent of the amount allocated to them for any specific program in the mega-item on any other programs in the mega-item.

In contrast to the mega-item, our proposed improving academic skills item contains programs that share a common general purpose, and we propose that districts would be able to transfer their program-specific allocations freely among the seven programs. Under our recommended approach, each district would receive the same total amount it would receive for the sum of the Governor's seven separate program allocations. Under this approach, districts would be able to better address local needs in serving distinct groups of students. Districts could also have a wider range of choices over program models, when to offer instruction, and the subjects in which instruction would be offered.

The Legislature Should Eventually Create Block Grants to Replace Categorical Grants. As we described in our January publication, *A Special Session Guide to K-12 Reform*, we believe that the Legislature should eventually go even further to ease the excessively prescriptive requirements of categorical programs and to erase the arbitrary funding distinctions between them. The Legislature can accomplish this by enacting legislation that would create block grants that would take effect for the 2000-01 fiscal year (to allow the Department of Education to carry out necessary technical formula revisions and to allow establishment of a statewide accountability system). Increased flexibility and increased accountability go hand in hand. As the state develops an effective accountability system, there will be less and less need for restrictions on how districts spend funds. And, as districts and schools become less bound by restrictions, it will be easier for them to deliver that for which the state is holding them accountable.

ENGLISH LANGUAGE LEARNERS

The Governor's budget proposes three initiatives to assist the 1.4 million California students of limited English proficiency, also known as English language learners:

- \$50 million annually to provide funding for supplemental instructional time, such as after school or summer school programs, for English language learners.
- \$10 million annually to fund professional development for teachers, administrators, paraprofessionals and other personnel who provide instruction and support to English language learners.
- \$14 million annually to administer an English Language Development (ELD) test to assess the proficiency of all English language learners and to provide diagnostic information to guide teachers.

The Governor has asked a task force to identify successful strategies to teach English language learners and to make recommendations on the most effective use of the funds for the first two items by early April. (We address the supplemental instructional time proposal earlier in this section in a recommendation to create an "improving academic skills item," and the professional development proposal in our Teacher Quality section.) In this section we focus on the \$14 million proposal to administer the ELD test. We also review Proposition 227's appropriation of \$50 million annually to teach English to adult English language learners who pledge to tutor school children in the learning of English.

English Language Development Test

We recommend that the State Department of Education provide a full report on progress towards developing an English Language Development (ELD) test during budget hearings. Pending receipt and review of this information, we withhold recommendation on \$14 million to administer an ELD test.

The budget provides \$14 million from Proposition 98 funds for school districts to administer an ELD test. Chapter 936, Statutes of 1997 (AB 748, Escutia) required the Superintendent of Public Instruction to develop an ELD test by January 1, 1999. That date, however, has slipped. The development of the test has not yet begun and it is uncertain whether a test that meets the law's specifications can be developed in time to be administered within the budget year. Even if it is *possible* to develop the test in time to be administered within the budget year, it may not be appropriate to do so, as we discuss below.

Requirements for the Test. State law requires that an ELD test, or series of tests, meet certain requirements:

- The tests must be comprehensive enough to assess the proficiency of all English language learners, in grades K-12, in English reading, speaking, listening, and writing.
- They must be capable of providing diagnostic information to guide teachers and to determine a student's readiness for various instructional options.
- The test scores must allow for a comparison of a student's growth over time.
- The test scores must be useful for evaluations of program effectiveness.
- The test is to be aligned to ELD standards that are comparable in rigor and specificity to the state's academic content standards for English language arts.

Status of Effort. Chapter 886, Statutes of 1997 (AB 1188, Lempert), appropriated \$800,000 from the General Fund to the State Department of Education (SDE) for development of an ELD test. To date, SDE has spent approximately \$300,000 for development of ELD *standards*, through a contract with the San Diego County Office of Education. The draft standards were presented to the State Board of Education in November 1998. The board was critical of the draft standards, and SDE has now revised them. As of this writing, the revised proposed standards await approval by the board.

Timeline for Test Development. The SDE staff indicate that, once standards are adopted, they expect it will take between 12 and 18 months to develop an ELD test aligned to these standards. This much time is required to:

- Determine, based on the standards, whether to collaborate with another state in developing the tests, modify existing tests, or develop entirely new tests. (These tasks are specified by Chapter 886.)
- Develop “blueprints,” or a set of guides, outlining the key content areas that will be covered in the tests.
- Develop the test questions for the tests for the different age ranges.
- Field test the exams to determine the validity and reliability of the test questions and to determine the “cut” points for different proficiency levels.
- Make modifications based on field testing.

According to SDE staff, completing this work within a year’s time is very optimistic and assumes that no controversies, problems, or unforeseen circumstances develop. Thus, under the most optimistic scenario, the earliest the test could be administered is in the spring of 2000. We understand from SDE staff, however, that normally this test would be administered in the fall to entering students as a means of determining the best instructional placement for the students. (The test would be given annually and, in the years following, it would also be used to determine how much progress students had made over the intervening 12 months.) Thus, even if the test is ready by the spring of 2000, fall administration of the test might be preferable from the standpoint of meeting educational needs.

Given the uncertainty about when an ELD test will be developed, we withhold recommendation on the \$14 million to administer the test, pending the department’s progress report during budget hearings. The department should establish that administration of the test in the budget year is both feasible and advisable to justify expenditure of \$14 million in the budget year.

Proposition 227

We recommend that the Legislature enact legislation to broaden the permissible uses of the \$50 million annually appropriated by Proposition 227 in order to further the purpose of the proposition—to help public school children learn English as rapidly and effectively as possible.

In its opening "Findings and Declarations" section, Proposition 227 states "...it is resolved that: all children in California public schools shall be taught English as rapidly and effectively as possible." To this end the proposition requires that all California children in public schools be taught English by being taught in English. With specified exceptions schools are to teach English language learners in special classes that are taught nearly all in English, and to eliminate bilingual classes in most cases.

The proposition also requires the state to (1) encourage family members and others to provide personal English language tutoring to children from backgrounds of limited English proficiency, and (2) support these efforts by raising the general level of English language knowledge in the community. To support this, the proposition appropriates \$50 million each year for ten years for "free or subsidized programs of adult English language instruction to parents or other members of the community who pledge to provide personal English language tutoring to California school children with limited English proficiency."

We believe that promoting English proficiency among adults is a worthwhile endeavor and contributes in the longer term to the acquisition of English by the children in the community. We believe, however, that the overall purpose of the proposition, to teach all children in our public schools English as rapidly and effectively as possible, would be furthered by allowing districts to select additional strategies for delivering English tutoring and other specialized assistance in English instruction to English language learner pupils.

During the joint hearing held in fall 1998 by the Senate and Assembly Education Committees on the implementation of Proposition 227, many school personnel spoke of the need for additional resources to effectively implement the proposition. Among the cited needs were:

- Additional instructional time (outside regular classroom instruction) for students attempting to learn English sufficiently well within one year to succeed in regular classes the next year.
- Instructional materials for students in structured English immersion classes.
- Staff development for English immersion teachers.
- Staff development for mainstream teachers, to prepare them to support students placed in their classes after one year in English immersion classes.

We believe that these and other programs could help meet the proposition's objective of teaching children English as rapidly and effectively as possible. For example, if the language governing the proposition's appropriation were made more permissive through amendment, schools could pay for English language tutoring of pupils by tutors who *already* know English. This would be a particularly direct and effective way to deliver tutoring services to English language learners.

Proposition 227 specifically provides that the Legislature may amend the proposition through a bill (passed by two-thirds vote and signed by the Governor) to "further the act's purposes." In view of the above, we recommend that the Legislature enact legislation to broaden the permissible uses of the \$50 million annually appropriated by Proposition 227.

We also note that, in the budget year, districts will have two years worth of funding to spend (\$100 million), due to a technical delay in the availability of the first \$50 million authorized by the proposition. We believe that this doubling of funding in the budget year adds weight to our recommendation that districts have greater discretion as to how to spend the funds, as long as the spending advances the purpose of the proposition to help children learn English as rapidly and effectively as possible.

CLASSROOM AND SCHOOL LIBRARY FUNDS

We recommend that the Legislature (1) amend the California Public School Library Act of 1998 and (2) add language to the Governor's "Classroom Libraries" proposal to allow schools to use the combined resources for these programs interchangeably. We recommend that the Legislature limit ongoing funding for school and classroom libraries to \$83 million, based on national statistics of library material expenditures and discussions with school librarians. We further recommend that the balance of the proposed funding—a total of \$101 million—be converted from ongoing to one-time funds.

The Governor's budget proposes \$25 million for a new program to purchase books for "classroom libraries" in grades K-4 classrooms. The budget also includes \$159 million for school libraries under the California Public School Library Act of 1998 (Chapter 332, Statutes of 1998 [AB 862 Ducheny]). This is the same amount approved for this purpose in the 1998-99 Budget Act. This program and the Classroom Library Program proposed in the budget, provide resources for very similar needs for K-4 students. In fact, for these students the only difference is in the physical location of the books within the school.

Combine Funding for School-Site Flexibility. Elementary schools are competent to decide where to place books to best meet their pupils' needs. We do not believe they should be forced by state budgeting practice to allocate their library purchases in a way that is less than optimal for their pupils. Accordingly, we recommend that the Legislature (1) amend the California Public School Library Act of 1998 and (2) add language to the Governor's Classroom Library proposal to allow schools to use the combined resources for these programs interchangeably. Under this approach, resources will better match school-site needs.

Convert Portion of Funds to One-Time Funding. The \$159 million included for school libraries is more than adequate to meet ongoing acquisition needs to maintain high quality school library collections. According to survey data from the School Library Journal, the national median expenditure for library materials by schools was approximately \$13 per pupil in 1995-96. Most librarians we talked to felt between \$10 and \$20 per student would support high-quality libraries. Our recommendation of \$15 falls in the middle of this range. We therefore recommend that the Legislature approve \$83 million in the budget year for school libraries from ongoing Proposition 98 funds (\$15 times 5.5 million average daily attendance [ADA]).

Given the lack of funds dedicated to school libraries in the early 1990s, there is justification for allocating additional funds to school libraries for a limited time period to let them "catch up." We therefore recommend that the remainder of the funds proposed for school libraries (\$76 million) be allocated as one-time monies. Similarly, the Governor's proposal for \$25 million for K-4 books would make most sense as a one-time appropriation. The \$25 million represents *supplemental* elementary school book purchases of about \$11 per K-4 ADA. Under our approach, in the budget year and beyond, elementary schools would have adequate funds for ongoing acquisition needs and complete flexibility to place books where most needed, whether in a classroom or in the library down the hall. This approach, in our view, assures an adequate level of ongoing library funding. It also increases the Legislature's options for addressing other K-12 priorities beyond the budget year and "freeing up" a total of over \$101 million of ongoing Proposition 98 funds (school library plus classroom library funds).



TEACHER QUALITY

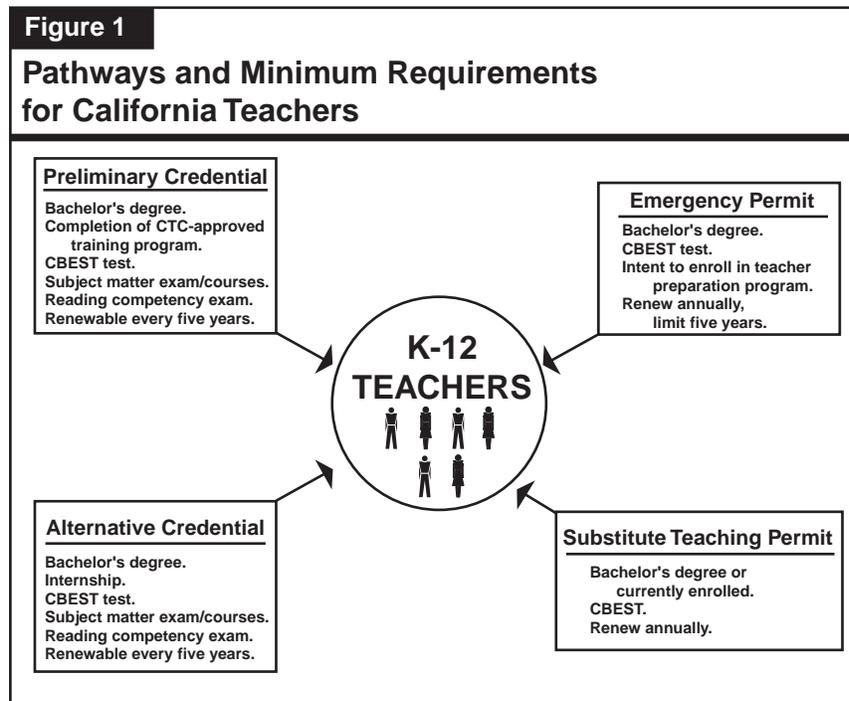
The Governor's budget includes \$58 million in new General Fund resources for programs targeted at improving teacher quality. Of this amount, \$23 million is for programs at the University of California (UC) and the California Community Colleges (CCC), \$1.5 million is to waive the \$60 credential fee for all first-year teachers, and \$10 million is for professional development for school personnel who work with English language learners. The remaining \$23 million would augment \$85 million in existing Proposition 98 funds to evaluate and train teachers. The budget also includes ongoing funding for Beginning Teacher Support and Assessment (\$72 million), alternative credentialing (\$24 million), staff development (\$28.5 million), and UC Subject Matter Projects (\$15 million).

We provide below, background and context for evaluating these proposals.

WHAT DOES IT TAKE TO BECOME A TEACHER?

There are currently over 270,000 active full-time teachers in the state's public schools. The Commission on Teacher Credentialing (CTC) is responsible for ensuring that teachers meet minimum requirements, specified through legislation. Any person that wishes to teach in a California public school must possess a permit or credential from CTC. There are over 100 different types of permits and credentials, each with specific requirements. These various permits and credentials broadly fall into two categories—"single subject" and "multiple subject." Single subject permits and credentials are specific to a subject taught by the teacher, such as math, science, or English. Multiple subject permits and credentials are required for elementary school teachers who generally teach several subjects. Through CTC, the state enforces qualification standards for new teachers and requires ongoing training for existing teachers. (Additional discussion and recommendations related to CTC can be found on page E-63 of this *Analysis*.)

Until recently, most people entered teaching after (1) completing a CTC-approved “fifth-year” training program offered by a graduate school of education and (2) passing several state-required tests. Once prospective teachers completed their training and passed the required tests, they submitted an application to CTC, which in turn issued a “preliminary” credential valid for five years. While this remains the most common pathway to teaching in California, the increased demand for teachers caused by class size reduction, high attrition rates, and retirements has increased the use of alternative routes. Figure 1 describes the major ways a person can enter teaching and the requirements for each route.



Preliminary Credential. As mentioned above, the preliminary credential is the most common pathway to teaching. Following their receipt of a bachelor’s degree, prospective teachers complete a fifth-year program which includes courses on teaching methods and a semester of supervised student-teaching. Then, before applying for a credential from CTC, prospective teachers must pass the following tests:

- The California Basic Skills Test (CBEST)—a test of general proficiency in mathematics and English.

- A subject matter competency exam (or approved courses)—multiple subject for elementary school teachers, or single subject (such as math, language arts, science, history, etc.) for middle and high school teachers.
- Reading Instruction Competency Assessment (RICA)—a test of knowledge and skills to teach reading.

After reviewing an applicant's records to confirm that all training and testing requirements are met, CTC issues a preliminary credential valid for five years. Teachers may renew their credential and convert it to a "clear" credential (good for another five years), if they meet specific renewal requirements. Every five years teachers must meet the following requirements for renewal: (1) complete 150 hours of professional growth (usually through staff development offered by school districts or classes offered by universities and colleges) and (2) 90 days of professional service (includes time spent as a full-time or part-time teacher).

Alternative Credential. The requirements for an alternative credential are almost the same as those for a preliminary credential. Instead of a fifth-year training program, however, alternative credential candidates participate in a two-year internship program coordinated by an institute of higher education and/or a school district. These programs are designed to attract people entering teaching as a second career because they allow them to work as paid intern-teachers while training to become a teacher. Upon completion of an internship program, interns receive a preliminary credential valid for five years.

Emergency Permit. Districts that are unable to fill teaching vacancies with individuals holding appropriate teaching credentials can request from CTC emergency permits that allow noncredentialed individuals to teach. To qualify for an emergency permit a person must (1) hold a bachelor's degree, (2) have passed the CBEST, and (3) demonstrate intent to pursue a teaching credential. The level of prior training in teaching for emergency permit holders varies dramatically. For instance, a person with a multiple-subject credential allowing that person to teach grades K-8 may apply for a single-subject emergency permit to teach ninth grade math because a district cannot find enough teachers credentialed in this area. At the other extreme, an emergency permit holder could be someone with no teaching experience. The permit allows a person to teach for one school year and may be renewed up to four times for a potential total period of five years. To renew the permit, individuals must take six units of college course work during the year.

Thirty-Day Substitute Permit. The requirements for a substitute permit are similar to those for an emergency permit, except a bachelor's degree is not required *if* a person has completed six semesters of college and is currently enrolled at a four-year university or college. Generally, substitutes cannot teach a given class for more than 30 calendar days in a row or 60 days in the school year. When no full-time teacher—either credentialed or holding an emergency permit—can be found to fill a vacancy, districts can place a series of substitutes in a classroom.

Special Considerations for Out-of-State Teachers. California's requirements for a teaching credential are among the most exacting in the nation. Until recently, California did not recognize teaching credentials from other states. This meant that out-of-state teachers with teaching experience found themselves having to meet California's academic and student teaching requirements before they could apply for a credential. The recent need for teachers highlighted the excessive barriers placed before out-of-state teachers, and in the 1997-98 session, the Legislature passed several bills to make it easier for qualified out-of-state teachers to become credentialed in California. For instance, Chapter 547, Statutes of 1997 (AB 1620, Scott), allows school districts to hire experienced teachers from out-of-state if they have received training comparable to that required in California. Also, Chapter 331, Statutes of 1998 (AB 858, Davis), allows out-of-state teachers with National Board certification to immediately become credentialed California teachers.

Credential or Permit Waiver. Under certain circumstances school districts and county offices of education can request waivers of specific requirements for any of the above credentials or permits. According to CTC, in 1996-97 approximately 1.5 percent of all teachers were teaching under a waiver. A significant number of waivers are granted to permit holders who have not passed the CBEST exam. Some waivers are also granted to individuals teaching outside of their credential subject area as an alternative to issuing an emergency permit for this same purpose.

Who Is Teaching?

California's need for teachers has been affected by both circumstance and policy choices. Some of the need is due to underlying demographics—growth in student enrollment and anticipated growth in teacher retirements. The state's policy choice to implement class size reduction on a rapid and statewide scale added greatly to the underlying demand for new teachers. Figure 2 (see next page) compares growth in enrollment with growth in the number of teachers. The sharply increased growth rate in teachers beginning in 1996-97 is due primarily to class size reduction.

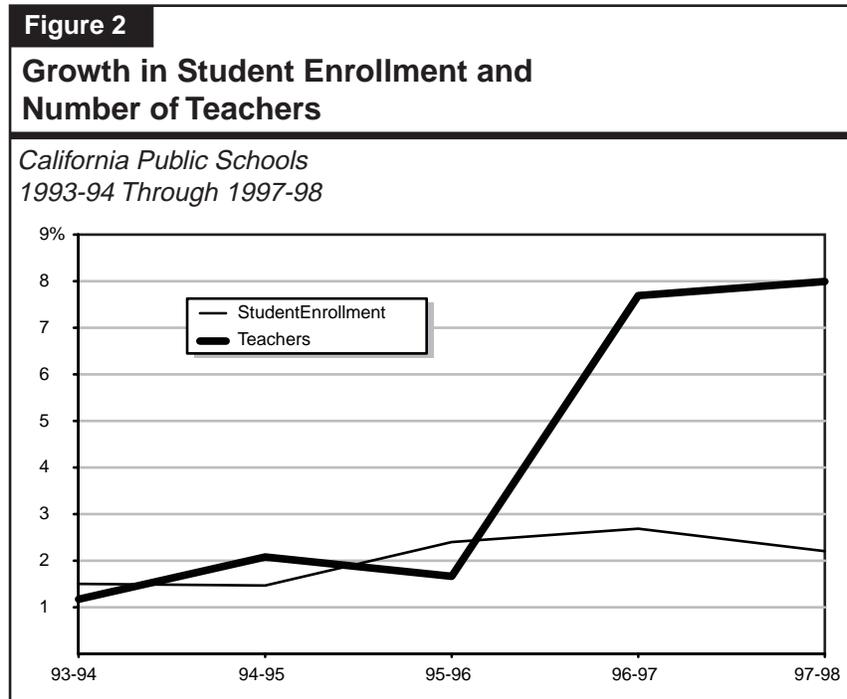


Figure 3 provides a comparative overview of teachers from 1995-96 through 1997-98. During this brief time period, the age, level of experience, and other demographics of teachers have changed.

Teachers Are Younger and Less Experienced. The average age of teachers has decreased from 43.5 years in 1995-96 to 42.8 years in 1997-98. In addition, during the same time period the average number of years of experience has decreased from 14.4 years to 13.3 years. Around one-third of the teachers in classrooms today will retire within the next ten years. Currently, the average retiring teacher has around 25 years of teaching experience. New teachers hired to replace retired teachers, however, do not tend to stay in teaching. High attrition rates among relatively new teachers (less than five years of experience) means that California's experienced teachers will be replaced by a stream of younger and less experienced teachers.

More People Are Trained to Teach Than Actually Work in Classrooms. Although the state's number of active teachers is growing over time so too are the number of "inactive" teachers. For instance, in 1996-97 California teacher preparation programs recommended around 28,000 people for teaching credentials. Of these people, only around 70 percent

went directly to teaching jobs in California public schools. The gap between people completing credential programs and new teachers is noteworthy because of the extreme need for teachers. It is possible that at some time in the future some of these people may teach, but it is uncertain how often this occurs. High attrition rates compound the effect of the gap. After five years, around half of public school teachers leave the system. These teachers may be leaving to teach at private or out-of-state schools, or they may be leaving the profession for other opportunities. However, the state does not have a good sense of where these teachers are going because neither CTC nor the Department of Education track this important information.

Figure 3

Characteristics of California Public School Teachers

	1995-96	1996-97	1997-98
Number of teachers	231,112	248,886	268,779
Average age	43.5	43.1	42.8
Average years of experience	14.4	14.2	13.3
Average salary	\$42,243	\$42,991	\$44,585
Percent female	71%	72%	72%
Percent white, nonhispanic	80%	79%	78%
Percent with master's degree or higher	34%	32%	31%
Percent with emergency permit	5%	8%	11%

Increasing Number of Emergency Permit Teachers. School districts, in response to the trends noted above, have turned increasingly to hiring people holding emergency permits. Around two-thirds of California school districts employ teachers with emergency permits. The percentage of teachers with emergency permits has increased from 5 percent of teachers in 1995-96 to 11 percent in 1997-98.

Many low-income urban and rural areas rely heavily on emergency permit teachers. These districts face special problems in recruiting and retaining quality teachers. As shown in Figure 4 (see next page), emergency permit teachers account for 38 percent of *all* teachers in Compton Unified School District (Los Angeles County) and 21 percent in Reef-Sunset Unified School District (Kings County). In these districts, even a

higher percentage of *new* teachers are emergency permit holders. For instance, over 50 percent of newly hired teachers in Compton Unified and Reef-Sunset Unified are teaching under emergency permits. As discussed above, emergency permit teachers generally come to teaching with limited teaching training and experience.

Figure 4	
Percent of Teachers with Emergency Permits for Selected School Districts	
<i>1996-97</i>	
School District	Percent
Compton Unified (Los Angeles)	38%
Inglewood Unified (Los Angeles)	35
Ravenswood City Elementary (San Mateo)	28
Reef-Sunset Unified (Kings)	21
Delano Union Elementary (Kern)	19
Imperial Unified (Imperial)	19
Los Angeles Unified (Los Angeles)	18
Tulare Joint Union High (Tulare)	16
Oakland Unified (Oakland)	13
Dinuba Elementary (Tulare)	13

EVALUATING NEW PROPOSALS

California needs more quality teachers. To meet this challenge will require recruiting new talented teachers, encouraging qualified teachers that have left the profession to return, and retaining existing quality teachers. In addition, it will require raising the quality of existing teachers, and encouraging those teachers not up to the job to find another calling.

The state has taken several steps in recent years to improve teacher supply and quality. For example, new programs encourage classroom aides and emergency permit holders to pursue training to become fully credentialed teachers. In addition, the Legislature approved \$67 million in the *1998-99 Budget Act* to fully fund the Beginning Teacher Support and Assessment (BTSA) program, which provides support and training to first- and second-year teachers. Last year, the Legislature also provided increased retirement benefits for teachers that teach past the age of 62.

In the coming months, the Legislature will be considering many new teacher quality proposals, including various ones in the Governor's budget. When evaluating new proposals we suggest the Legislature consider the following principles from our *Special Session Guide to K-12 Reform* (January 1999):

- Hold institutions and individuals accountable for developing quality teachers.
- Give institutions and individuals the resources, flexibility, and incentives to improve results.
- Remove unnecessary barriers to entry into the teaching profession.
- Make quality and training career-long priorities.
- Promote competition among training institutions (public and private).

GOVERNOR'S PROPOSALS TO ENHANCE TEACHER QUALITY

The 1999-00 Governor's Budget proposes spending \$58 million in new General Fund resources and \$32 million of federal Goals 2000 funds for new programs targeted at enhancing teacher quality. In this section, we make recommendations regarding each of these proposals, which are listed below:

- \$12 million for reading professional development institutes.
- \$1 million for Governor's Teacher Scholars and Principal Leadership Institutes.
- \$16.8 million for teacher peer review and assistance, in augmentation of \$83.2 million of existing funds for the Mentor Teacher Program.
- \$10 million for expansion of paraprofessional teacher training.
- \$10 million for English language learners staff development.
- \$10 million for Community Colleges' Teacher and Reading Development Partnerships. (We discuss our recommendation for this program in our community colleges section.)
- \$1.5 million to waive new teacher credential fees.
- \$28.5 million of federal funds for math staff development.

Reading Professional Development Institutes

We recommend that the Legislature delete \$12 million (\$6 million to the University of California and \$6 million of Proposition 98 funds) for Reading Professional Development Institutes because this type of training can be provided through existing programs, including the California Subject Matter Projects administered by the University of California and because the proposal is too narrowly drawn to address high-priority staff development needs. We recommend providing these funds instead to school districts for staff development priorities they identify.

The budget provides \$6 million to UC to plan, develop, and administer an intensive training program (“Reading Professional Development Institutes”) for teams of teachers and administrators involved in teaching reading to students in kindergarten through grade 3. The budget provides an additional \$6 million to school districts for stipends of \$1,000 for each of the 6,000 participating teachers. Teachers trained through this program are expected to return to their schools as “coaches” to other teachers.

California Subject Matter Projects (CSMP) Provide Training Already. The budget also appropriates \$15 million to UC to fund “subject matter projects” in six areas (UC and California State University fund three additional programs using their own special funds), including reading and literature. This is the same amount provided for this purpose in the 1998-99 Budget Act. Through the CSMP, the university provides training each year to 67,000, or 25 percent, of California’s public school teachers. This training is led by accomplished teachers and college and university faculty (from both public and private schools) at around 100 sites throughout the state. The projects develop teachers’ content knowledge and teaching strategies through summer institutes and school-year programs. After training, teachers return to their school sites to assist other teachers as coaches and mentors.

The proposed Reading Professional Development Institutes are similar in form and content to programs offered at CSMP. We do not think it is necessary to create a new training program when an effective and proven program exists.

Proposal Too Narrowly Drawn. School districts should be able to choose the type of staff development training that best meets their needs. As we discussed earlier, these needs vary between schools and between districts. Permitting flexible use of resources allows districts to directly address their areas of need. Under the Governor’s proposal, funding would only be available for the reading institutes. There are many other

staff development opportunities that districts may view as high priorities, including CSMP, but the new funding would not be available for these purposes.

For these reasons, we recommend deleting \$12 million for the Governor's proposed Reading Professional Development Institutes. Instead, we recommend providing the \$12 million to districts as part of a staff development block grant. (Detailed recommendations for a staff development block grant are made later in this section.)

Governor's Teacher Scholars and Principal Leadership Institutes

We recommend that the Legislature delete \$1 million for the University of California to plan and develop the Governor's Teacher Scholars Program and Principal Leadership Institutes because the proposal limits the ability of prospective participants to choose programs that best fit their needs. As an alternative, we recommend that the \$1 million be used to expand the number of Cal Grant T scholarships for prospective teachers across the state to allow greater access and choice for prospective teachers.

From the General Fund, the budget proposes \$500,000 to UC to plan and develop the Governor's Teacher Scholars program and \$500,000 to plan and develop the Governor's Principal Leadership Institutes. Under the Governor's proposal, UC would begin spending these funds in the current year, as soon as urgency legislation (AB 2x, Mazzoni and Cunneen) providing the appropriation is enacted. Bachelor's degree holders in the Teacher Scholars program would be able to take the necessary course work for a teaching credential and master's degree in 15 months. Principal Leadership Institutes would provide administrator preparation training to teachers with an interest in becoming a principal. This training would be provided over two years and would result in a master's degree and/or progress towards a doctoral degree.

These training programs would be available at two UC campuses—Berkeley and Los Angeles. When fully operational, each campus would train 400 students annually in each of the programs. Thus, the total annual enrollment would be 800 when fully phased in. All participating students would receive a full scholarship, funded through private donations, for student fees and supplies. We estimate that UC would have to raise \$4 million for this purpose.

Maximize Effect by Putting Resources Into Existing Scholarship Program. If UC considers the proposed programs a high priority for

improvement of its current teacher and administrator training programs it may be appropriate for the system to develop these types of programs. However, we believe the state can better use its resources by using the proposed \$1 million instead for Cal Grant T scholarships. Additional scholarships would allow prospective teachers to choose training that best meets their individual needs. For this reason, we recommend deleting \$1 million for the planning of these programs. We recommend using the \$1 million instead to expand the Cal Grant T program. This would provide an additional 220 prospective teachers with teacher preparation scholarships.

Teacher Peer Review and Assistance Program

We recommend that the Legislature make school district participation in the Governor's proposed teacher peer review and assistance program voluntary and reject the proposal to eliminate the mentor teacher program. We further recommend combining funding for the existing Beginning Teacher Support and Assessment program with the existing mentor teacher program and the \$16.8 million proposed for the Governor's new program, in order to allow local districts flexibility to provide support and assessment to all teachers.

The budget proposes eliminating the current mentor teacher program by July 1, 2000, and implementing in its place the California Teacher Peer Review and Assistance program. This proposed program would use exemplary teachers to assist veteran teachers in need of development in subject matter knowledge and/or teaching strategies. The budget proposes to add \$16.8 million of new funding to train experienced teachers as mentors for the proposed program, which would become fully operational in 2000-01. School districts would receive \$1,000 per teacher trained for this program. The Governor's proposal also includes \$83.2 million for the existing mentor teacher program, but in 2000-01 this funding would be transferred to the new program.

Both appropriations for the budget year—a total of \$100 million—are included in the special session legislation for this proposal (AB 1x, Villaraigosa and Strom-Martin), rather than in the budget bill. This bill also requires school districts to negotiate with the certificated employees' exclusive representative to create joint teacher-administrator peer review panels. These panels would select the mentor teachers. In addition, the proposed legislation allows districts to use student progress on state-adopted standardized tests as one basis to evaluate teachers. Districts that choose not to participate in this program will not receive their annual

cost-of-living adjustment (COLA) for revenue limits or any other state-funded program.

The Mentor Teacher Program. Since 1984 the state has provided school districts with funding for mentor teachers. This program allows a district to select up to 5 percent of its teachers to serve as mentors to other teachers. The *1998-99 Budget Act* provides school districts \$5,680 per mentor teacher. Most of the funding, between \$4,000 and \$4,629, must go towards teacher stipends.

Most school districts with BTSA programs use a portion of their mentor teacher funds to meet the local matching requirement of BTSA. Mentor teachers assist and support first- and second-year teachers in the program. The partnership between BTSA and mentor teachers has contributed to the success of BTSA.

Good Ideas, But Implementation Needs Improvement. Ongoing constructive teacher evaluation and support for teachers in need of improvement are important elements of any plan to improve teaching quality. For this reason, we support the overall goal of the Governor's proposal. We have significant concerns, however, with the specific approach taken by the Governor to implement these ideas.

- ***Eliminates BTSA and Mentor Teacher Partnership.*** Eliminating the mentor teacher program eliminates or limits important resources for BTSA. As mentioned above, mentor teacher program funding is used by school districts to meet BTSA's local match requirements. In addition, mentor teachers assist and support BTSA teachers. Mentors involved with the proposed peer review and mentor assistance program would only assist those teachers who volunteer or are referred based on poor evaluation performance. Most likely, this would not include BTSA teachers. In this event, school districts would need to recruit additional mentor teachers to maintain their BTSA programs.
- ***A Mandate in Disguise.*** Although the proposal technically allows districts to choose whether or not they participate in this program, the "choice" does not really exist. Those districts that elect not to participate in the program would not receive an annual COLA for any of their state-funded programs. Given the funds at stake, it seems safe to assume that all districts will feel compelled to participate regardless of whether the program best meets their needs.

Support and Build Upon Existing Programs. We believe the Governor's proposal can be improved upon by addressing the above concerns. Specifically, we recommend making peer assistance a local option rather

than what is in effect a mandate. Districts that choose to participate would work with local collective bargaining units to develop a program that best meets local needs. Furthermore, we recommend preserving the mentor teacher program and combining its funding (\$83 million) with funding for BTSA (\$72 million) and funding proposed for the Teacher Peer Review and Assistance Program (\$16.8 million). This would provide a total of \$172 million and would allow local districts flexibility to provide support and assessment to *all* teachers. This also would allow districts to better direct resources to meet local needs.

Paraprofessional Teacher Training

We recommend approval of the \$6.6 million proposed augmentation from Proposition 98 funds for paraprofessional teacher training. We recommend deleting the \$3.4 million augmentation in federal Goals 2000 funding for the same program because our recommended level of funding allows adequate expansion. The federal resources should be used instead to address more immediate teacher training needs.

There are around 90,000 paraprofessionals—teachers' assistants, library-media aides, and instructional assistants—working in California's public schools. The current-year budget includes \$1.5 million from Proposition 98 funds to provide scholarships and support to around 500 paraprofessionals interested in becoming credentialed teachers. The CTC is responsible for the administration of this program. The budget proposes a \$10 million increase in funding, for a total of \$11.5 million. This would provide services to an additional 3,300 paraprofessionals. Generally, paraprofessionals lack bachelor's degrees and have completed relatively few college courses. The scholarships allow them to enroll as a part-time student in a college or university while working part-time as a paraprofessional. Because of their part-time status, it usually takes many years of commitment before a paraprofessional can become a fully credentialed classroom teacher.

The Legislature approved funds for expansion of the paraprofessional program in the *1998-99 Budget Act*. Former Governor Wilson vetoed the augmentation because he felt it was a higher priority to fund assistance programs for people who already possess their bachelor's degree.

Balance Long-Term Investment With Short-Term Needs. While it is worthwhile to make an investment in furthering the training of paraprofessionals, there are several other immediate teacher preparation and training priorities that also merit funding. For this reason, we recommend that the Legislature approve a balanced expansion of the

paraprofessional training program by providing the \$6.6 million augmentation requested from Proposition 98 funds. This would allow a more than five-fold program expansion in the budget year. We further recommend that the Legislature redirect the \$3.4 million of federal Goals 2000 monies to staff development to address immediate teacher training needs. (The use of these funds is discussed in more detail later in this section.)

Teacher Credential Fee Waiver

We recommend deleting \$1.5 million included to “backfill” revenue loss from a proposed waiver of the \$60 teacher credential fee for new teachers because the waiver would have little to no effect on teacher supply. These funds would be more effective at attracting additional new teachers if used to provide more scholarships for qualified and financially needy students. We therefore recommend that the Legislature use the \$1.5 million to fund an estimated 325 additional scholarships under the Cal Grant T program.

After meeting CTC's training and testing requirements prospective teachers apply for a teaching credential, which is renewable every five years. The CTC charges applicants a processing fee, which fully funds all CTC operations related to credentialing. The budget proposes to (1) waive the \$60 fee for all new teachers as a means of attracting more people to the profession and (2) replace the lost fee revenues for CTC operations with \$1.5 million from the General Fund (non-Proposition 98).

Waiving the credentialing fee for new teachers would have little to no impact on the number of people entering teaching. Anyone who has reached the point of deciding whether to apply for a credential already has made considerable investments of time and money—fees for required tests and fingerprints costing around \$500 in addition to the costs of training, which range from \$2,500 to \$15,000. It is difficult to imagine that a \$60 fee would dissuade people from applying for a credential. Thus, waiving the fee would have no effect on the state's supply of teachers. As a result, the proposed expenditure of \$1.5 million is not an effective use of state funds.

There are effective ways of boosting teacher supply. For instance, last year the Legislature enacted the Cal Grant T program, providing scholarships for fifth year teacher preparation programs. Currently funded at \$10 million, the Cal Grant T program provides over 2,000 scholarships to students for teacher preparation programs who meet academic and financial requirements. By focusing resources on those for whom such help

can make the difference in choosing teaching as a career, programs like Cal Grant T help the state attract more people to teaching.

In view of the above, we recommend that the Legislature delete the \$1.5 million proposed “backfill” for waiving the credential fee for new teachers. Instead, we recommend that the Legislature use the \$1.5 million to increase Cal Grant T funding. The \$1.5 million would provide an estimated 325 additional teacher preparation candidates with scholarships.

Staff Development Block Grant

We recommend that the Legislature provide \$53.9 million (\$22 million from the General Fund and \$31.9 million in federal Goals 2000 funds) to school districts for staff development training to address immediate teacher quality training needs.

In addition to the specific training problems proposed by the budget, school districts also need flexible resources to meet their general training needs. The budget proposes using \$28.5 million of federal Goals 2000 funds for grants to local school districts for in-service mathematics staff development and tuition grants to allow mathematics teachers to take college-level mathematics courses.

The current-year budget includes \$30 million in one-time Proposition 98 funding for a similar purpose. In our *Analysis of the 1998-99 Budget Bill*, we recommend against providing funding for this program for two reasons: (1) the proposal unnecessarily restricted local flexibility in meeting staff development needs by limiting expenditures to *mathematics* staff development, and (2) the tuition grant proposal was 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. We continue to have similar concerns with this year’s proposal for mathematics staff development using Goals 2000 funds.

Provide Flexible Funds Through a Block Grant. Given these concerns, we cannot recommend that the Legislature approve the Governor’s proposal. However, we recognize that districts have staff development needs. We also believe Goals 2000 funds are a reasonable source with which to support staff development activities. Therefore, we recommend approving \$31.9 million in Goals 2000 funding for a staff development block grant (\$28.5 million from the budget’s math staff development proposal and \$3.4 million from our recommendation on the paraprofessional training program). We further recommend including in the block grant \$10 million proposed for English language learners staff

development to increase local flexibility over how these funds are used. (Under our recommendation, consistent with the Governor's proposal, this \$10 million would be distributed to districts based on their number of limited-English-proficient pupils.) In addition, we recommend providing an additional \$12 million (General Fund) for the block grant (from our recommendation on the proposed reading professional development institutes earlier in this section). This would provide a total of \$53.9 million for this block grant. These funds would be available to support district priorities for staff development.

COMMISSION ON TEACHER CREDENTIALING

The Commission on Teacher Credentialing (CTC) was established in 1970 to ensure that high standards are set and met for teacher preparation and licensing of public school educators. It issues permits and credentials to all classroom teachers, student services specialists, school administrators, and child care instructors and administrators. In total, there are over 100 different types of documents issued by CTC.

As concern over teacher quality grows, so does attention to CTC's role in the process of ensuring high standards for teachers. In 1995 CTC convened the Advisory Panel for the Comprehensive Review of Teacher Credentialing Requirements (also known as the SB 1422 Advisory Panel from Chapter 1245, Statutes of 1992 [SB 1422, Bergeson]) to recommend improvements for teacher preparation and credentialing. In November of 1997 the SB 1422 Advisory Panel released its report, which included a statement of educational goals and recommended systemic changes for teacher preparation and training. Last year the Legislature adopted Chapter 548, Statutes of 1998 (SB 2042, Alpert and Mazzoni), implementing several of the SB 1422 Advisory Panel recommendations. Specifically, Chapter 548 encourages institutions of higher education to offer education minors and create "blended" programs so undergraduates can begin their teacher preparation earlier. The enacted legislation also requires that teacher training activities be aligned with state-adopted standards for teachers.

The section "Evaluating New Proposals" includes our recommendations related to the Governor's proposal to waive the \$60 CTC credential fee for new teachers. In this item, we address additional recommendations for CTC.

Deny Request for Permanent and New Positions

We recommend that the Legislature deny the Commission on Teacher Credentialing's (CTC) request for \$449,000, eight additional positions, and conversion of 6.5 limited-term positions to permanent status, because these positions are not adequately justified. As an alternative, we recommend that the Legislature provide \$250,000 from the Teacher Credentials Fund for a comprehensive review of CTC's structure and credential processing protocols, in order to find more efficient ways of accomplishing workload.

The budget provides \$449,000 for eight new positions for CTC in 1999-00 in addition to converting 6.5 limited-term positions approved in the 1998-99 Budget Act to permanent status effective July 1, 1999. If approved, this staffing level reflects over 20 percent growth in the permanent staffing of CTC since fiscal year 1997-98.

Meeting Workload Demands Requires Systemic Change, Not Just More Workers. The commission's workload has increased significantly since the implementation of class size reduction. It must process more credentials, respond to more questions from applicants, and review more discipline cases. As an alternative to increasing staffing levels, CTC has done little to improve its processing protocols.

It takes on average between 4 and 12 weeks for CTC to perform its primary task—processing a request for a teaching credential or permit. This processing time is excessively long compared to agencies with similar responsibilities, such as the state nurses and medical boards. This long processing time results from CTC's application review protocols. Although more positions may reduce this processing time, we believe that CTC would be able to make similar gains by improving how it processes credentials.

A comprehensive review of CTC's structure and credential processing protocols would answer the following important questions:

- How can the processing of credentials be modified to improve efficiency?
- What is the appropriate level of staffing to efficiently process credentials?
- How much does it cost on average for CTC to process a credential, including potential discipline review costs?
- Does CTC's fee structure reflect the actual cost of services provided?

Invest in Good Information to Inform Future Decisions. Providing CTC with additional permanent positions at this time would serve as a band-aid fix for its current backlogs. It avoids addressing the structural reasons for the backlogs. From our observations of CTC we believe it can make significant efficiency gains by modifying its organizational structure and processing protocols.

For the above reasons, we recommend the following:

- ***Deny Requests for Additional Permanent Positions Until a Comprehensive Study of CTC's Operations is Completed and Reviewed.*** Specifically, we recommend that the Legislature deny the budget's requests for eight new positions and converting 6.5 positions approved on a limited-term basis in the 1998-99 Budget Act to permanent status. If CTC provides adequate justification during budget hearings for continuing the 6.5 positions for the budget year, we recommend that the Legislature approve them as one-year limited-term positions.
- ***Approve \$250,000 From the Teacher Credentials Fund to Contract for a Comprehensive Review of CTC.*** These funds would allow for a comprehensive review of CTC. Such a review will provide good information to inform future decisions about CTC's staffing and equipment needs. We recommend that CTC, working with our office and the Department of Finance, develop a request for proposal (RFP) for the study and selection of a contractor to complete it. Therefore, we recommend, that the Legislature approve \$250,000 for the study and adopt the following budget bill language:

This item of appropriation includes \$250,000 for the Commission on Teacher Credentialing (CTC), with the collaboration and assent of the Department of Finance and the Legislative Analyst's Office, to develop a request for proposals (RFP) to conduct a comprehensive review of CTC's organizational structure and credential processing protocols. The three agencies shall select a contractor for this study that meets the requirements outlined in the RFP. The three agencies shall submit a report of the contractor's finding and recommendations to the Governor and the appropriate policy and fiscal committees in each house no later than March 1, 2000.

Information Technology Requests

We withhold recommendation on the Commission on Teacher Credentialing's (CTC) request for \$438,000 from the Teacher Credentials Fund to replace and expand its information technology infrastructure, pending receipt and review of CTC's information technology plan due on March 1, 1999.

In the current year CTC received \$113,000 to begin a multiyear process to upgrade its existing computers and acquire additional computers. This funding was provided on two conditions: (1) CTC would complete all year-2000 computer upgrades and (2) an information technology plan would be developed and submitted to the Legislature for review by March 1, 1999. The CTC has completed all system-critical year-2000 computer upgrades, but at the time this *Analysis* was prepared it had not yet completed its information technology plan.

The budget provides CTC with \$438,000 from the Teacher Credentials Fund to expand efforts to upgrade and replace computers. The CTC is requesting these funds because many of its computers are old and have insufficient memory to work effectively. The request appears reasonable. However, an increase of this magnitude needs to be justified in the context of the long-term information technology plan currently under preparation.

We anticipate CTC's report will be available by March 1, 1999. Pending receipt and review of the report, we withhold recommendation on the \$438,000 budget request.



GOVERNOR'S ACCOUNTABILITY PROPOSALS

The 1999-00 Governor's Budget includes a total of \$207 million for initiatives aimed at establishing a system of accountability for the state's public K-12 school system. Of this total, \$12.4 million is proposed for the California Community Colleges (CCC) for "high school report cards" and "middle college high schools." We discuss these proposals in the CCC section of this *Analysis*. The remaining funds proposed in the budget for K-12 accountability are included in two special session bills. Senate Bill 2x (O'Connell) includes \$2 million for development of a high school exit exam, which we discuss later in this section. Senate Bill 1x (Alpert) includes \$160 million from Proposition 98 funds and \$32 million from federal funds, for the Governor's main accountability programs. We discuss the proposals contained in SB 1x below.

The Governor's "Public School Performance Accountability Program," contained in SB 1x, has three distinct parts described below:

Academic Performance Index. Under the Governor's proposal, the Superintendent would design an Academic Performance Index (API) for each public school based upon at least three components: (1) Standardized Testing and Reporting (STAR) test scores, (2) student and school staff attendance rates, and (3) high school graduation rates. Test scores and other data from spring 1999 would be used as the base year for judging subsequent changes in the API. The State Board of Education would determine the "proficient" level of API scores.

High Achieving/Improving Schools Program. Schools would be eligible for "Governor's Performance Awards" under the High Achieving/Improving Schools Program beginning in the budget year for either (1) exceeding the proficient level for the API, or (2) improving upon its prior-year API by a growth target set by the state board, which must be at least 5 percent. The budget includes \$150 million (General Fund) for these awards. Schools that do not meet at least one of the above expectations *may* be forced to participate in the Immediate Interven-

tion/Underperforming Schools Program beginning with the 2000-01 fiscal year.

Immediate Intervention/Underperforming Schools Program. The budget proposes \$42.3 million for an Immediate Intervention/Underperforming Schools Program, involving 200 low-performing schools. A more detailed description of this program and our recommendations follows later in this section.

The Governor's set of proposals provides a framework for implementing an accountability system, but leaves many important details to be worked out either by the Superintendent of Public Instruction or the state board.

LAO Guidelines for a State Accountability System

Earlier this year, we provided the Legislature *A Special Session Guide to K-12 Reform* (January 1999) in which we outlined the following guiding principles for the Legislature to consider in designing an accountability system:

- Define clear goals and measures.
- Set clear lines of accountability.
- Make districts the state's point of contact.
- Ensure the right incentives are in place.
- Ensure that institutions and individuals have the "tools" to achieve what is expected of them.

We applied these principles in reviewing the Governor's proposals and in making recommendations.

GOVERNOR'S PERFORMANCE AWARDS

Technical Funding Change Would Make \$150 Million Available for Upcoming School Year

We recommend that the Legislature approve the proposed appropriation for the Governor's Performance Awards for expenditure in 2000-01. This would make available (on a one-time basis) an additional \$150 million for schools in the upcoming school year without any practical delay in the first payments of the Governor's Performance Awards.

Under the Governor's proposal, the first annual selection of schools to receive Governor's Performance Awards is to be made by the state board based on API scores to be calculated in June 2000. SB 1x appropriates \$150 million for the performance awards for the 1999-00 fiscal year. This presumes that the state board would be able in the month of June to (1) calculate all the school API scores, (2) determine on the basis of those API scores which schools are to receive performance awards, and (3) make the award payments. This schedule is overly optimistic. First, the school API scores depend, in part, on student scores on the STAR test, which is administered under current law as late as May 25th. The API scores for high schools also depend on graduation rates, which cannot be determined until the school year ends. Apart from these considerations, too many things would have to go right in processing scores and payments for over 8,000 schools for the award payments to be made before the fiscal year ended. Finally, even if the payments were made in June, as a practical matter, schools could only put the funds to effective use as part of their *subsequent* school year budget (2000-01).

In view of the above, it seems inadvisable to tie up \$150 million of Proposition 98 funds for a school year in which the funds cannot be used. We propose a simple solution: change the funding start date from 1999-00 to 2000-01. This would cause no practical delay in the award payments. It would, at the same time, allow the Legislature to get an additional \$150 million out to the schools (for various one-time activities) at the *start* of the 1999-00 school year. (In the K-12 Priorities section of this Chapter we recommend a list of one-time spending priorities for this \$150 million.)

Hold Districts Accountable for School Performance

We recommend that the Legislature make school districts the state's point of contact in the proposed High Achieving/Improving Schools Program.

As we discussed in our *Special Session Guide to K-12 Reform*, the state should make school *districts* its point of contact in any state accountability framework. Local school districts are given important responsibility in almost all aspects of school life. They are designed, through locally elected boards, to reflect local community priorities and concerns, and are in a better position than the state to determine how best to motivate their own schools, administrators, and teachers to improve performance.

The Governor's approach bypasses school districts by giving performance awards directly to schools. It is not necessary, nor advisable,

however, to exclude school districts from the performance awards (given under the High Achieving/Improving Schools Program). For example, if districts were given a formal role in the accountability system, the state could specify that districts make sure that most, if not all, of their schools attain desired levels of improvement. Under the administration's approach, there are no direct roles for districts, so no such expectations are made of them. Indeed, in the absence of explicit expectations on districts, the incentives for districts can be counter-productive. That is, a modest number of schools within the district boundary receiving Governor's performance awards may be enough for a district to portray itself as a success, and diminish any incentive for it to improve performance at its other schools. As we pointed out in our special session guide, for an accountability system to work, districts need to be accountable to the state and schools need to be accountable to districts.

Accordingly, we recommend that the Legislature amend SB 1x to make districts the state's point of contact in the High Achieving/Improving Schools Program.

Authorize Districts to Give Bonuses As Part of Performance Awards

We recommend that the Legislature amend SB 1x to authorize school districts to use Governor's performance awards to grant bonuses to school staff, in order to give districts an additional "tool" for rewarding the people responsible for improved school performance.

As discussed above, the Governor's accountability proposal includes \$150 million annually for "Governor's performance awards," to be given each year to schools that show high achievement or improvement, based on criteria to be developed by the Superintendent of Public Instruction and the State Board of Education. These performance awards will need to be spent on one-time activities that do not commit schools to ongoing expenditures, because no school can be assured that it will receive an award each year.

In order to add another useful purpose to local spending options, we recommend that the Legislature authorize local districts (or schools) to use Governor's performance awards for one-time bonuses to reward school staff. This option could serve as an important motivating tool. Moreover, since the performance awards are intended to reward schools for superior achievement or improvement, it would be particularly appropriate to use the funds to directly reward school staff who made the achievements possible.

IMMEDIATE INTERVENTION/ UNDERPERFORMING SCHOOLS PROGRAM

The 1999-00 Governor's Budget proposes \$32.3 million in federal funding and \$10 million in Proposition 98 funds for the Immediate Intervention/Underperforming Schools Program, both appropriations included in SB 1x. This new program would support school reform activities in 200 schools selected from the nearly 5,000 schools across the state that are estimated to score below the national average on the Standardized Testing and Reporting Program (STAR) in both 1997-98 and 1998-99. This program is modeled after the federal Comprehensive School Reform Demonstration Program and will have to follow that program's rules to qualify for the \$32.3 million in federal funds. The federal program is very prescriptive, and it requires funding to go directly to schools, thereby bypassing districts. For this reason, the Legislature would be unable to use districts as the state's point of contact for this program.

Under the federal program, California is eligible to receive over \$16 million annually for a three-year period for comprehensive school reform starting in the current year. Governor Wilson's veto of the first \$16 million in the current year however, has made a total \$32.3 million available for the budget year. Of these federal funds, \$26.5 million must be spent on Title I schools. The 1999-00 Governor's Budget augments these federal funds with \$10 million in Proposition 98 funds, making \$42.3 million available for the 200 schools (an average of over \$210,000 per school). The Governor's proposal provides schools with between \$25,000 and \$50,000 for planning grants. With the planning grants, schools are to hire an "external evaluator" who, with the assistance of a broad-based schoolsite and community team, will develop an action plan to improve the academic achievement of the school's pupils. A school submitting an action plan by March 1, 2000 (for purposes of the first annual round), will receive an implementation grant of \$150 per pupil for each fiscal year the school is in the program.

What Is Comprehensive School Reform?

The Comprehensive School Reform Demonstration Program (also known as the "Obey-Porter" program after the congressional authors) is a three-year federal effort to encourage the implementation of school reform programs that are based upon promising practices to improve schools. The initial federal legislation identified 17 model programs (including Success for All, Modern Red School House, Accelerated School Projects, and Roots and Wings), but allows the funds to be used on other

program models that meet specified criteria. Currently, over 40 program models are recognized by the federal government as meeting the requirements of the federal law. In the Governor's proposal, the State Board of Education would adopt a list of programs that it believes meet the federal requirements, and state goals.

The Governor's Proposal Appears to Overbudget for Its Stated Purposes

The Governor's proposal overestimates the cost of providing \$150 per pupil to the 200 schools. Assuming that all 200 schools received the maximum planning grant of \$50,000, a minimum of \$32.3 million would remain available under his proposal for the implementation grants. If the average sizes of the elementary, middle and high schools participating in the immediate intervention program approximate the statewide average sizes, only \$24 million would be required for the implementation grants at the proposed \$150 per pupil amount. Looked at another way, in order to use up the entire \$32.3 million available for implementation grants, the average size of the schools participating in the program would have to exceed the statewide average by 40 percent. This does not seem likely.

The apparent overbudgeting for implementation grants opens up at least three options: (1) appropriate less money for the program, (2) increase the number of participating schools, or (3) increase the per-pupil grant amount.

Modify the Funding Mechanism

We recommend that the Legislature increase the implementation grants to \$175 per student, and that the funding be a lump-sum that schools could use over the two years of the program.

As discussed above, the overbudgeting for implementation grants provides the Legislature with three options. In this section, we recommend the option of increasing the per-pupil funding level at each school as well as covering the cost of both program years upfront. Based on our calculations, the Legislature could increase the funding level for each school from \$150 per student to \$175 per student. As we explain below, providing planning grants between \$25,000 to \$50,000 plus \$175 per student will allow the Legislature to provide schools with enough funding to pay for the two-year program costs with the amount included in the budget.

The Northwest Regional Education Laboratory, under contract with the U.S. Department of Education, has produced a catalog of all of the Comprehensive School Reform models describing in-depth each of the models, and typical experienced costs for a school of 500 students. The annual costs of the programs range from \$25,000 to \$70,000. The laboratory's survey also found that costs are generally larger in the first year, and decrease in the following years. On the basis of two years of program participation (the standard under the Governor's proposal), total program costs at the high end of the range in the study would be about \$140,000. For the same size school, the Governor's proposal would provide between \$100,000 to \$125,000 in the first year of the program, and an additional \$75,000 in the second year for a two-year total of up to \$200,000.

Based on our analysis, the Governor's proposal provides too much funding per school for the cost of the immediate intervention programs. We propose providing implementation grants of \$175 per pupil (\$25 higher than the Governor) as a lump-sum for the two years of the program. Assuming planning grants of \$25,000 to \$50,000 per school (same as the Governor), a 500 pupil school would receive a total of \$112,000 to \$138,000, an amount commensurate with the high end of the range for the comprehensive school reform models.

Provide Funding in a Lump-Sum Instead of Annually. A way of allowing schools greater flexibility to choose the best program for them is to grant the schools all of the funding for the length of the program in one lump-sum payment instead of annual payments. A second advantage to the lump-sum grant approach is that schools will recognize that this is a temporary funding source which will not be continued indefinitely.

Based on our calculations, the Governor's proposal provides enough funding for 200 schools to receive all of their funding in a lump-sum payment in the budget year. In subsequent years, the Legislature could then expand the number of schools participating relative to the Governor's approach, because the full amount needed for the first round of schools already would have been provided in 1999-00. Thus, we recommend that the Legislature increase the amount of the implementation grant to \$175 per pupil, and provide all of the funds as one lump-sum grant instead of an ongoing grant.

School Participation Should Be Voluntary

We recommend that the Legislature revise the Governor's immediate intervention program to make it strictly voluntary.

The Governor's initiative stipulates that if fewer than 200 schools volunteer for the Immediate Intervention program, the Superintendent of Public Instruction shall randomly select schools to participate. (These would be selected from schools performing below average.) We believe that it is necessary to have the program remain voluntary for two reasons—(1) federal law requires it, and (2) the reform programs require local support to succeed.

In order to receive the funds from the federal government, California must use the funds for competitive grants reviewed by "experts." So, a school would have to actually apply for the funds, and SDE would have to have experts evaluate the merits of the proposal based on some criteria. We do not believe that the Governor's proposal is consistent with the federal law. We recognize that the federal rules would only apply to the \$32 million in federal funds, and that SDE could provide grants to mandated schools with the \$10 million from the General Fund. However, the second reason to maintain a voluntary program is that all of the comprehensive school reform programs require school faculty to "buy-in" to the reform process. Of the programs we surveyed, the school reform models required at least 50 percent of the faculty to vote in support of the plan, while some required as high as 80 to 90 percent faculty "buy-in." Most programs also require some level of parental support. Existing programs realize that without local support, they will not be effective. School faculty are not likely to be highly supportive of a state-mandated school reform plan.

For these reasons, we recommend that the Legislature revise the Governor's proposal by making participation strictly voluntary. The immediate intervention program concentrates on schools, which appears unavoidable because of the requirements of federal law. Under the Governor's proposal, failure of these schools results in direct state intervention. We believe that school districts should be provided an opportunity to improve these schools prior to state intervention, as discussed in the next section.

Districts Should Intervene First; State Intervention Should Be Last Resort

We recommend that the Legislature require school districts to intervene in schools deemed educationally deficient under the Immediate Intervention Program. Only if school district intervention fails should the State Superintendent of Public Instruction subsequently intervene. In that circumstance, we recommend that the Legislature grant the Superintendent more professional discretion than that proposed by the Governor.

The Governor's proposal specifies that schools not meeting state performance goals after two years in the Immediate Intervention/Underperforming Schools Program shall be deemed "educationally deficient" schools. The proposal would *require* the State Superintendent of Public Instruction to assume legal responsibility for these schools, *and* reassign the principal.

The proposal further requires the State Superintendent to take *at least one* of the following actions for each educationally deficient school:

- Allow students to attend another school.
- Allow parents to convert the school to a charter school.
- Assign the management of the school to a college, university, county office of education, or other institution.
- Reassign teachers from the school.
- Renegotiate the collective bargaining agreement.
- Reorganize the school.
- Close the school.

Make the Districts Intervene First. The Governor's proposal requires the State Superintendent of Public Instruction to intervene in the governance of educationally deficient schools not as a last resort, but as the *first* step. Moreover, the proposed intervention mechanism is automatic, leaving little to the professional discretion of the Superintendent. We believe it makes more sense to require the relevant school district to intervene at the first determination that a school is educationally deficient (which would occur after two years in the Immediate Intervention/Underperforming Schools Program). In most cases, that intervention should be sufficient to achieve desired improvement in the school. If, after another one or two years, a district is unable to "turn the school around," then state interventions may be necessary, as we discuss further below.

Give the Superintendent Greater Flexibility. If after one or two years of district intervention, the school is still considered educationally deficient, the State Superintendent should have the authority to take any of the actions stated above, but should not be required to do so. The Governor's proposal unnecessarily restricts the Superintendent's discretion to determine the best approaches to improve performance at these schools. It also creates an *automatic* process under which the state could be forced to take over legal responsibilities and duties for numerous schools across

the state. While we believe that all of the sanctions proposed by the Governor should be available to the Superintendent as “tools,” the decisions of *if* and *how* to intervene at any school site should be left to the discretion of the Superintendent, based on professional judgment and the particular circumstances at each educationally deficient school. We therefore recommend that the Legislature amend SB 1x to grant the Superintendent of Public Instruction appropriate professional discretion in determining sanctions for schools deemed to be educationally deficient.

HIGH SCHOOL EXIT EXAM

The Governor’s budget proposes \$2 million in Goals 2000 funds to the State Department of Education (SDE) to develop a high school exit exam in reading, writing, and mathematics to be approved by the State Board of Education by July 2000. The funds and implementing provisions are included in SB 2x (O’Connell). The proposal does not specify when the test would first be administered, but requires that passage of the test be a condition for graduation, beginning with all high school graduating classes of 2003. Although the test represents only a small expense in the budget year, the test could result in expenses in the tens of millions of dollars annually once it is administered to pupils.

Potential Costs of a High School Exit Exam

There are three main costs which will likely result from the implementation of a high school exit exam—test administration, higher retention rates, and remediation costs.

Test Administration. The cost for administering the test would depend, in part, on how much of the test is multiple choice compared to short answer or essay. Other states that have implemented high school exit exams have experienced costs ranging from \$5 to \$20 per student each time the exam is administered. Another factor is the number of students who would need to retake the test. Some states offer the test as many as four times per year. Based on this information from other states, we estimate that the test administration could cost between \$3 million and \$15 million per year depending upon the cost per test and the number of students who need to retake it.

Retention. The cost of increased enrollment from retaining high school seniors an extra year is potentially great, but also highly uncertain. Any increase in the number of high school seniors retained for not passing the exam could be canceled out by an increase in high school drop-outs due

to student frustrations with the exam. The state General Fund would experience increased costs, however, to the extent a net increase in the number of high school seniors does occur because the Proposition 98 minimum spending guarantee would increase by almost \$6,000 for each additional student. For each 1 percent net increase in high school students due to retention, the Proposition 98 cost would be about \$20 million.

Remediation. The cost to the state for increased remediation is highly uncertain. California already has a significant amount invested in remediation programs. With a high-stakes graduation test, there may be an increase in demand for these remediation programs, but the extent to which existing efforts would meet the demand is unknown. Because SB 2x mandates that graduation be tied to passage of the exam, the state may face compelling pressures to ensure that all schools have adequate resources to offer necessary remedial education.

Policy Issues on High School Exit Exams

We recommend that the Secretary for Education report to the Legislature at hearings on SB 2x on important design issues for the high school exit exam.

We see the high school exit exam as a good “tool” for districts to use to motivate students and parents. However, there are many significant policy issues that the Legislature needs to first address. For instance, we are concerned that the administration’s proposal makes graduation contingent on passage of the exam. This is a decision that may be more appropriately left to locally elected school boards. We think the Legislature should also consider the following:

- *What Is the Purpose of the Test?* Exit exams generally have one of three purposes—guarantee minimum competencies of graduates, raise standards for all students, or provide a tool for accountability. The primary purpose chosen for implementing the test will influence the way in which the test is designed.
- *What Is the Appropriate Grade Level for the Test?* The Legislature may want to administer the test starting in the 10th grade to give students the maximum opportunity to pass the exam or seek remediation to improve weaknesses. But, if 10th graders are tested, then the test can only cover material which a 10th grader should know. So, by starting the test at an early grade, the exit exam must be a lower skill level test. Most states with exit exams start in the 10th grade, but some test as early as 8th grade, and others as late as 11th grade. The difficulty of the test may also have an impact upon

the number of students who eventually drop out of high school. Other states that have tried exit exams have experienced increases in the number of dropouts, especially at the start of the testing program.

- ***Should There Be Early Indicators?*** One alternative used in states which do not administer the test until 11th grade is an early indicator test. Such a test is similar in format to the exit exam, but is administered in an earlier grade to identify those students at risk of failing the exit exam. Such students would then be given ample opportunity to improve their skills before taking the exit exam in their junior year.
- ***Are End-of-Course Exams or a Comprehensive Exit Exam Better?*** Some states use end-of-course exams instead of comprehensive graduation exams. The advantages of the end of course exams are: (1) the material tested should directly relate to topics covered in the class, (2) the stakes are lower on any one test, and (3) a failing student would only have to retake one class instead of repeating an entire year. States range from requiring tests in three subjects—algebra, reading, and writing—to Minnesota’s system, where students must pass tests in 24 of the possible 48 state standards.
- ***Legal Issues Surrounding High School Exit Exams.*** Most states that have implemented high school exit exams have had lawsuits filed challenging the exam. The Legislature will want to evaluate four questions which could reduce the possibility of such lawsuits: (1) Does the test measure what it was intended to measure? (2) Are the outcomes consistent across time and evaluators? (3) Does the exam test what is actually taught? (4) Were students given adequate notice?
- ***Special Education.*** Will special education students be required to pass an exit exam? Is there a limit on the number of students which can be considered special education in a district?

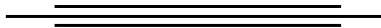
We recommend that the Secretary of Education report at hearings on SB 2x on these design issues.

**Provide SDE With More Choices in
Designing the High School Exit Exam**

We recommend that the Legislature authorize the State Department of Education to contract out for the design of the exam to any vendor instead of requiring design by a local education agency.

The Governor's proposal calls for SDE to allocate \$2 million in Goals 2000 funds to a local education agency (LEA) to evaluate the Golden State Examinations for possible conversion into a high school exit exam. A local education agency is either a county office of education or a school district.

We believe that the Governor is unnecessarily limiting SDE's ability to contract with the best possible vendor. The SDE has contracted evaluation and test designs out to LEAs in the past, but mainly to allow Proposition 98 funds to be used. Since the funding source for this initiative is Goals 2000, and not Proposition 98, the funds could be used for state operations or state contracts. For these reasons, we recommend that the Legislature provide the funding to SDE to contract directly with any vendor to design the high school exit exam. The LEAs could certainly compete for the contract, but the competition pool would be larger under our recommendation.



CHILD DEVELOPMENT

The budget includes \$1.6 billion for the State Department of Education (SDE) for subsidized child care and development programs, an increase of \$365 million, or 33 percent, over the amount adopted in 1998-99. Most of this increase is due to an additional \$280 million in federal Child Care and Development Block Grant funds for child care for California Work Opportunity and Responsibility to Kids (CalWORKs) recipients and former recipients, and implementation of the \$50 million After School Learning and Safe Neighborhoods program.

THE SUBSIDIZED CHILD CARE SYSTEM

The SDE administers a variety of subsidized child care programs that serve low-income families at little or no cost. As Figure 1 indicates, there is a separate category of funding reserved for CalWORKs recipients and former recipients. All other programs, however, are also open to CalWORKs recipients and former recipients when they leave CalWORKs-funded child care, based on space availability and income eligibility.

Families receive subsidized child care funded by SDE in one of two ways: either by receiving vouchers from Alternative Payment program providers that operate under contracts with SDE, or by being assigned space in centers or family home networks that contract with SDE to provide child care. As indicated in Figure 1, of the \$1.6 billion total for SDE child development local assistance for the budget year, \$714 million is for centers and family home networks contracting with SDE, \$553 million is for the CalWORKs Alternative Payment program, and \$226 million is for the non-CalWORKs Alternative Payment program.

Another \$700 million is provided for CalWORKs child care in 1999-00 in other departmental budgets, including \$685 million in the Department of Social Services (DSS) budget (including the reserve). This brings the state's total child care and development expenditures from state and federal funds to over \$2.3 billion in the budget year. This total does not

include another important piece of California’s subsidized child care system—the federal Head Start program, which provides preschool services at many sites in California but is managed directly by the federal government without state involvement. In federal fiscal year 1997, the federal government spent nearly \$460 million on Head Start programs in California, serving 80,000 children.

Figure 1

Department of Education Child Care and Development Programs (Local Assistance)

(Dollars in Millions)

	1998-99		1999-00		Percent Change from 1998-99
	General Fund	Total ^a	General Fund	Total ^a	
Contracted Centers and Family Homes:					
General Child Care	\$344	\$428	\$372	\$458	7.0%
Preschool	136	136	182	182	33.3
Other Centers	66	71	69	74	4.7
Subtotals	(\$547)	(\$635)	(\$623)	(\$714)	(12.4%)
Alternative payment CalWORKs:					
Stage II	\$74	\$217	\$74	\$470	116.9%
Stage III "Set Aside"	50	57	50	83	45.1
Subtotals	(\$124)	(\$274)	(\$124)	(\$553)	(101.9%)
Other alternative payment	\$48	\$220	\$51	\$226	2.9%
After School Learning	—	—	\$50	\$50	N/A
Resource and Referral	15	15	15	15	1.6
Other ^b	38	82	44	66	-19.2
Totals^c	\$771	\$1,226	\$907	\$1,625	32.5%

^a Includes federal funds.
^b Quality services, cost-of-living adjustment, facilities loans, etc.
^c Totals do not add due to rounding.

In calendar year 1997, the latest year for which complete data are available, approximately 425,000 children were served through SDE and DSS child care programs. We know these programs are growing, but the state does not have current data for the number of children served in 1998 and, therefore, has no good basis for making projections for the budget year. We discuss this data problem later in this section.

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 support services, including child care.

CalWORKs delivers child care in three "stages." Stage I is administered by the DSS through county welfare departments (CWDs) and begins when a participant enters the CalWORKs program. In Stage I, CWDs typically 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.

The CWDs will transfer a family to Stage II when the CWD determines that the family situation has become "stable," in the sense that the family has a plan for moving from welfare to work and has found a child care arrangement that allows them to fulfill 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 still 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—CWDs pay in Stage I and APs, operating under contracts with SDE, pay in Stage II.

Stage III refers to the entire subsidized child care system administered by SDE. A family can move from Stage II to Stage III at any time as long as the family remains eligible for SDE child care and a space in the program becomes available for them. If space does not become available before the end of their Stage II eligibility, they can continue to receive care under a special Stage III CalWORKs set aside (discussed later in this analysis).

Figure 2 provides an overview of the Governor's proposed funding for the CalWORKs stages and the distribution of funds between Stage I administered by CWDs, and Stages II and III, administered by SDE. (In the Health and Welfare Chapter of this *Analysis* we recommend modifications to this distribution.)

Figure 2		
Governor's Proposal for CalWORKs Child Care		
<i>(In Millions)</i>		
	1998-99	1999-00
Stage I (DSS ^a):		
Base	\$679.5	\$392.6
Reappropriation	(87.7)	87.7
Cal-Learn (DSS)	6.3	6.8
Health and Safety (DSS)	9.6	13.9
Stage I Subtotals	(\$607.8)	(\$501.0)
Stage II (SDE)	\$216.8	\$470.3
Stage III for CalWORKs "Set Aside"(SDE)	57.2	83.0
Stage II/III Subtotals	(\$274.0)	(\$553.2)
Community Colleges	\$15.0	\$15.0
Reserve (DSS) allocated		183.0
Totals	\$896.7^b	\$1,252.2^b

^a Department of Social Services.
^b Totals do not add due to rounding.

Budget Restricts Child Care Funding for Former CalWORKs Recipients

We recommend that the Legislature reject the Governor's proposal to cut off child care to former California Work Opportunity and Responsibility to Kids (CalWORKs) recipients who have been unable to secure subsidized child care outside of the CalWORKs program. Instead, we recommend allowing former recipients to continue to receive child care under the CalWORKs Stage III "set aside" if certain conditions are met.

The Governor's budget proposes an important policy change for CalWORKs child care administered by SDE regarding the length of time CalWORKs recipients can continue to receive subsidized child care.

Limiting How Long CalWORKs Recipients Can Use Subsidized Child Care. Currently, CalWORKs recipients and former recipients in Stages I and II are eligible to receive CalWORKs funded child care for as long as they receive CalWORKs aid and for up to two years after that aid ends, as long as they continue to meet income eligibility requirements. CalWORKs recipients and former recipients are expected to transfer to

Stage III, the general subsidized child care system, as rapidly as possible including, if possible, before the two-year period after CalWORKs aid has expired. If, however, they are unable to secure child care in the general subsidized system, the Legislature created a “set aside” in Stage III reserved for former CalWORKs recipients that have exhausted the two-year limit. Under current law these recipients can continue to receive CalWORKs funded child care through this Stage III set aside for as long as they remain income eligible and until their children reach age 13 (subject to the availability of Stage III set-aside funds).

The 1999-00 *Budget Bill* includes a provision to restrict the use of the Stage III set aside so that former CalWORKs recipients may not receive child care under the set aside beyond the expiration of the two-year period after they leave cash aid (Item 6110-196-0001, provision 9). This effectively eliminates the Stage III set aside, as it no longer offers any benefits beyond those provided in Stage II.

Argument for the Budget Proposal. The argument in favor of this change relates to the shortage of general subsidized child care “slots.” Under state law, families are eligible to receive general subsidized child care for their children up to the age of 14 if their income is below 75 percent of the state's median family income, adjusted for family size. Children referred by county child protective services have first priority for subsidized child care. After that, families are taken off waiting lists, with lowest income families receiving first priority. Once families enter the subsidized child care system, they are eligible to continue to receive subsidized child care (they pay a sliding scale “family fee”) until their income exceeds 75 percent of the state's median income. Thus, families receiving subsidized child care may be earning much more than families on the waiting lists, but they can continue to receive subsidized care until their children “age out.”

An unknown but sizable number of working poor families who meet the basic eligibility standard for general subsidized care never receive this care because they are not poor *enough*. That is, they weren't poor enough to be in CalWORKs (or elected not to be in CalWORKs) and receive child care through that avenue, and they weren't poor enough to be a priority recipient through SDE's general program. The argument in favor of limiting a family's ability to receive CalWORKs subsidized child care to two years rests on the perceived unfairness of giving priority—basically an entitlement to child care as long as they remain income-eligible—to former aid recipients over the working poor. This unfairness is heightened in those instances where the working poor may be earning less than former aid recipients.

Arguments Against the Budget Proposal. There are two arguments against eliminating this “fail-safe” Stage III set aside for former CalWORKs recipients. The first is one of fairness. County welfare departments provide families entering the CalWORKs system with Stage I CalWORKs child care. Only later in Stage II do these families put their names on waiting lists to receive child care through the general child care system. By the time their names come up on these waiting lists, if the parents have found employment and left aid, their income may be too high for them to be picked up off a waiting list. If, on the other hand, these families had put their names on these waiting lists when they first entered the CalWORKs system and their income was very low, their chances of securing child care through the general subsidized child care system would have been higher. Thus, because of the way the system is designed, some of these families miss the chance to get their children into the subsidized child care system over the long-term.

The other argument against eliminating the Stage III set aside is one of cost. If former CalWORKs recipients are unable to find care for their children in the general subsidized child care system and consequently “fall back” on CalWORKs aid, the public cost of the welfare grants could be large.

It is not possible to get much further in evaluating the merits of this proposed change due to the lack of child care data. The state does not know the extent of the unmet need for child care because it does not have adequate data collection and reporting systems. Neither does it know how the income levels of families on the waiting lists and of families receiving subsidized child care compare. It also does not know how many former CalWORKs recipients would be likely to lose subsidized child care with the budget’s proposed policy change.

Recommended Approach. Given the lack of data by which to predict the effects of this proposed change, we recommend a different approach. We recommend that the Legislature adopt in budget bill language a waiver provision which would allow former CalWORKs recipients to continue to receive CalWORKs subsidized child care even after they have been off aid for two years (under Stage III set aside), if certain conditions are met. Specifically, we recommend changing the budget bill provision to require CWDs to review the cases of families reaching the end of the two-year period, and to determine whether the family needs subsidized child care in order for the parent or parents to continue working. If the CWD makes a finding that this is the case, and so certifies, the family would continue to receive CalWORKs subsidized child care from the

Stage III set aside. We believe this approach is consistent with previously expressed legislative intent.

Specifically, we recommend modifying the last sentence of Provision 9, Item 6110-196-0001, to read:

\$75,786,000 of the funding in Schedule (b)(5.2) is reserved exclusively for child care for former CalWORKs recipients who have left cash aid but who still meet eligibility requirements for receipt of child care services, provided that former CalWORKs recipients who have left cash aid for longer than two years, but who still meet eligibility requirements for receipt of child care services, shall be eligible to continue to receive child care services funded through Schedule (b)(5.2) if the county welfare department, following a review of the former recipient's situation, determines, and so certifies, that the recipient needs subsidized child care in order to continue working.

FAMILY FEE SCHEDULE REFORM

We recommend that the State Department of Education forward the draft report proposing a new family fee schedule for subsidized child care services to the Legislature so that public hearings can be held on its recommendations.

The 1997-98 Budget Act (Item 6110-196-0001, provision 14) directed the Department of Social Services (DSS) and the State Department of Education (SDE) to develop new criteria to be included in a legislative proposal by January 1, 1998, to (1) establish standard entry and exit income eligibility levels for all child care and development programs and (2) adopt a new family fee schedule for all families receiving subsidized child care. The budget language directed that the eligibility levels should ensure the eligibility of low-income families and those attempting to stay off welfare or transition off welfare, and be adjustable through the annual budget act to reflect changes in the size of the eligible population and levels of available funding. The language directed that fees should be charged for each child (with a charge for each additional child in the same family at reduced rates), and that there should be a cap on the percent of gross income that can be charged in fees.

A draft report with recommendations for changes in the family fee schedule was prepared by a legislative and agency staff working group during the fall of 1997 and submitted to DSS and SDE. The status of these recommendations was discussed during last year's budget hearings, and language was added to the budget bill directing DSS and SDE to submit a proposed family fee schedule to the Legislature by December 15, 1998 for the purpose of adopting authorizing legislation. (The Governor vetoed

this language, stating that SDE already has statutory authority to implement a new fee schedule. This action does not, however, change the 1997 legislative direction to DSS and SDE to submit a proposal to the Legislature.) The DSS has signed off on a proposed new fee schedule but the Superintendent of Public Instruction has not acted on it. The Governor's budget calls on the Superintendent of Public Instruction and DSS to finalize the effort begun pursuant to the *1997-98 Budget Act* provisions.

The family fee schedule for subsidized child care in California has not been comprehensively revised since 1980. The Legislature has been aware of the need for a comprehensive review for some time. The *1997-98 Budget Act* language directing SDE and DSS to develop new criteria resulted from the August 1996 recommendations of a report prepared pursuant to 1991 legislation—AB 2184 Task Force (or PACE) final report, which was prepared pursuant to 1991 legislation (Chapter 1205, Statutes of 1991 [AB 2184, W. Brown]).

Since the draft report is more than a year overdue, we recommend that the Superintendent of Public Instruction forward the draft report to the Legislature without further delay so that public hearings can be held on the report. The DSS and SDE should explain to the Legislature at these hearings which of the report's recommendations they support or disagree with and why.

LACK OF POLICY-RELEVANT DATA

We recommend that during budget hearings the department report on its time line for development of the child care data collection and analysis system for which the Legislature authorized \$20 million in the 1997-98 Budget Act.

We have noted above the lack of data available for child care policy and budgeting decisions, including the lack of data on the extent of unmet need for child care by eligible low-income families. In our *Analysis of the 1997-98 Budget Bill*, we pointed out this lack of policy-relevant data and recommended that the Legislature provide funds for SDE to develop a data collection system that meets the state's need for policy-relevant data.

The *1997-98 Budget Act* provided \$20 million in federal funds for SDE to develop a child care data collection and analysis system. Of this amount, \$2 million was for development of a feasibility study report for the system, and for interim data collection and reporting while the overall system was being developed. The remaining \$18 million was for addi-

tional costs of implementing the data collection system. The Legislature also approved three additional positions for SDE's Child Development Division's Data Automation and Analysis Unit.

The department made little progress on the development of this system during 1997-98, and these funds were carried over by the 1998-99 *Budget Act* for the same purposes as the previous year. As of this writing, the department has yet to contract for the feasibility study.

We understand that the department has been focusing on complying with new federal data reporting requirements related to the implementation of the CalWORKs program, which are part of the overall data system. The data unit has also had difficulty retaining and recruiting staff with the expertise needed to develop the system. (As of this writing, two of the unit's seven positions were vacant.) We also note that the department has recently brought in an extra staff person to assist in the development of the new system. Nevertheless, given the importance of acquiring adequate data upon which to base policy and budgeting decisions for this \$1.6 billion program, and the amount of time that has passed since the Legislature first appropriated funds for this purpose, we recommend that during budget hearings the department report on its progress in developing the child care data collection and analysis system. This report should include the department's time line for completing the feasibility study report, and its detailed plans and time line for development of the key elements of the overall system. If the department is experiencing particular difficulties in developing the data system, it should explain to the Legislature the nature of these problems, how it expects to solve them, and how the Legislature can help in solving them.



OTHER ISSUES

MATRIX TESTING

We recommend that the State Department of Education report to the Legislature at budget hearings whether (1) the matrix test will be ready for statewide student testing by spring 2000 and (2) the matrix test should incorporate student responses from the Standardized Testing and Reporting test (in order to reduce matrix test costs). Pending receipt and review of this information, we withhold recommendation on \$32.2 million requested in the budget for development and administration of the matrix test.

The Governor's budget provides \$42.1 million in Proposition 98 funds to administer the Standardized Testing and Reporting (STAR) program to all students in grades 2-11. In addition, the budget provides \$12 million in one-time Proposition 98 funds to continue development of the test of applied academic skills known as the "matrix" test, and \$20.2 million in ongoing Proposition 98 funds to administer the matrix test to all students in grades 4 or 5 and in grades 8 and 10.

Slow Progress Continues on State Standards and Assessments

California's assessment system continues to make progress toward the goals established in Chapter 975, Statutes of 1995 (AB 265, Alpert). This act called for state-level academic content and performance standards and a two-tiered system for assessment of student performance. Content standards outline what a student should learn in each grade in four subject areas—language arts, math, history/social science, and science. Performance standards define the level of understanding that is considered advanced, proficient, basic, or below basic in each subject area.

The first tier of the assessment system, the STAR, uses a nationally normed, multiple choice test that produces individual student scores. A nationally normed test allows the state to compare California students

against a national average. To obtain comparable and reliable student scores, the STAR test necessarily measures student advancement in a relatively narrow portion of the content standards. The second tier, the applied academic skills or matrix test, gauges student performance over the entire content standards, using essays, and short, open-response questions in addition to multiple choice. The matrix test does not produce a student-level result because different students are tested on different parts of the matrix. Instead the test permits schools and districts to be assessed on how their students perform on all facets of the curriculum.

STAR Test Developments

In the spring of 1998, the state administered the STAR for the first time to all students in grades 2 - 11. The results showed that California public school students lagged behind the national average, especially for the 20 percent of California students who are limited-English proficient (LEP). As Figure 1 shows, only 9 percent of fourth grade LEP students in the state's public schools scored above the national average in reading on the STAR compared to 49 percent of the non-LEP students.

Figure 1						
STAR Test Results—1998						
<i>Percent of California Public School Pupils Above the National Average</i>						
	Grade 4		Grade 8		Grade 10	
	Non-LEP	LEP	Non-LEP	LEP	Non-LEP	LEP
Reading	49%	9%	53%	7%	36%	3%
Math	46	17	48	13	44	17
Language	54	18	54	12	41	6
Spelling	42	12	38	6	—	—
Science	—	—	—	—	48	13
Social Science	—	—	—	—	42	8

In the fall of 1998, the State Board of Education adopted the last of the four subject area content standards. The 1998 STAR test did not reflect the newly adopted state content standards. The board revised the 1999 STAR test to reflect state standards in reading, language, spelling, and math. The board plans to align STAR with science and history/social science standards as part of the test administered in the spring of 2000.

Matrix Sample Test Under Development

The board and State Department of Education (SDE) continue to work on the development of the matrix test and the performance standards. Chapter 300, Statutes of 1998 (SB 1564, Schiff), sets the following deadlines for the board in the budget year:

- *July 1999.* Adopt performance standards for language arts and math.
- *December 1999.* Adopt matrix test in language arts and math.
- *Spring 2000.* Administer matrix test in language arts and math.

The board may not be able to issue a request for proposal (RFP) to design the matrix test in time to stay on schedule to administer the test in spring 2000. The board is currently working with SDE, and the Advisory Panel on Assessments to resolve three important issues prior to issuing an RFP:

- Can the performance standards and matrix test design be combined into a single contract or are two contracts needed?
- What is the structure of the matrix test (that is, essay, short answer, multiple choice)?
- Can the matrix test incorporate student responses from the STAR test questions that are aligned to state standards, in order to reduce matrix test costs?

In order to stay on track to administer a matrix test in the budget year, the board must issue an RFP in the next couple of months. As of this writing, we think that the test may be delayed until the 2000-01 fiscal year. If it is not administered in the budget year, \$20.2 million would be available for one-time purposes in 1999-00. We recommend that SDE report to the Legislature at budget hearings on whether the matrix test will be designed in time to be administered in spring 2000.

The 1999-00 budget requests \$12 million to design the matrix test, and \$20.2 million to administer the test in spring 2000. This assumes the test is built from scratch. The 1999 STAR test, however, also will cover a portion of state content standards in language arts and mathematics. As a result, the matrix test could build upon the STAR results and therefore reduce the length of the matrix test. Such a reduction in scope would reduce the cost of designing, administering, and grading the matrix test. We further recommend that SDE report to the Legislature on whether the

matrix test design can incorporate student responses from the STAR test, and what the cost implications are.

Pending receipt and review of both of the above reports, we withhold recommendation on the \$32.2 million requested in the budget for matrix test design and administration.

CALIFORNIA SCHOOL INFORMATION SERVICES

The Governor's budget proposes \$6 million in one-time local assistance funding (\$5 million Proposition 98 and \$1 million audit recovery funds) for the California School Information Services (CSIS) program.

The CSIS is a multiyear project to develop, implement and manage a statewide student level data base and information transfer network. The program is administered by the Fiscal Crisis and Management Assistance Team (FCMAT), a part of the Kern County Office of Education. The FCMAT, under a contract with the state, provides fiscal advice, management assistance, and training to school districts. Although FCMAT administers CSIS, the State Department of Education (SDE) is the state's responsible agent for the local assistance grants to FCMAT and is integrally involved in advising on the student level data base.

The CSIS has three main program goals:

- Enable school districts and school sites to electronically transfer student records (such as transcripts, test scores, and health records) to any other district or school in the state.
- Transfer student transcripts to institutions of higher education.
- Simplify and increase the accuracy of district data that is reported to the state.

The FCMAT has approximately \$11 million from prior appropriations available, which it will use in the current year to provide grants to local consortia of districts to implement Phase I, the test phase of CSIS. First, however, the State Board of Education (SBE) must approve the CSIS development plan before FCMAT can issue a request for proposal for Phase I grants. The board could approve the CSIS plan as early as its February meeting. The \$6 million provided in the Governor's budget would be used by FCMAT to expand the number of districts using CSIS through a second round of grants distributed in the spring of 2000.

Benefits of a Student Level Database

We believe that a student level database could play a fundamental role in education improvement efforts in California, as it has in many other states. Benefits of a student level database include:

- *Achieving School Accountability.* Accountability systems should measure both *levels* and *gains* in student achievement over time. A student level database is fundamental to implementing such an accountability system. The CSIS data base also would significantly increase the accuracy of data that may be used in the Governor’s proposed Academic Performance Index.
- *Tracking Drop-Outs.* School “drop-outs” represent a serious challenge to schools in California. Currently, the state and districts have difficulty tracking where students move and whether they drop out. A student level data system would help the state identify where these students “fall through the cracks.”
- *Evaluating State and Local Programs.* Districts and SDE could improve their ability to evaluate programs by linking students served by a program to changes in standardized test scores or class grades. Such a database also would allow SDE and districts to conduct longitudinal studies to measure effects over time.
- *Improving State Data and Lower District Costs.* Districts are currently required to file numerous reports to the state that impose large district workloads. The student level database will allow districts to generate state reports more easily and at a lower cost. The state would benefit also since the data SDE receives would be standardized and contain fewer errors.

Create External Technical Oversight

We recommend that the Department of Education (SDE) report prior to subcommittee hearings on the results of a formal risk assessment for the California School Information System (CSIS). We recommend that SDE also present the Legislature with a timeline and cost estimate to contract with an external evaluator to conduct a technical evaluation of CSIS, and develop a mitigation plan for high-risk areas. Pending SDE’s response, we withhold recommendation on the \$6 million budget request.

The CSIS represents a major technical and organizational challenge to implement. The sheer size of the state school system—with more than 1,000 independent school districts and 8,000 schools—makes implementa-

tion difficult. As past experience has shown, other attempts by the state to construct large data systems have been plagued with serious problems.

Generally, state departments are subject to Department of Information Technology (DOIT) oversight in efforts to develop data systems. The DOIT has no oversight role in CSIS, however, because CSIS is administered by FCMAT. The SBE does have some oversight of the CSIS effort, but lacks expertise in implementing large database systems.

As part of its oversight responsibilities of large technology projects, DOIT requires state agencies to (1) conduct a risk assessment and (2) develop a risk mitigation plan for the proposed system design and implementation. In such an analysis, an agency evaluates the risks posed by its proposed system in five areas:

- **Strategic Risk.** How does the system fit into the agency's overall information technology plan, and what is the relative priority of the project?
- **Financial Risk.** What are the long-term costs and benefits of implementing the specific design?
- **Project Management.** Is the timeline realistic? What are the qualifications of the project manager and vendors to complete the project?
- **Technology Risk.** Does the system use more risky "cutting edge" technology, or have similar systems been designed with standard methods?
- **Change Management/Operational Risk.** How will the new system change the way daily business is conducted?

At the time this analysis was written, FCMAT had not conducted a risk assessment of CSIS or a mitigation plan, nor was a risk assessment or mitigation plan underway.

This leaves the Legislature without a clear sense of the likelihood that CSIS will be successful and whether state funds would be used efficiently. In view of the above, we recommend that FCMAT, in coordination with SDE, use DOIT's risk assessment model to conduct a self-risk assessment of CSIS and report on its outcome to the Legislature prior to subcommittee hearings. We recommend that the department also present the subcommittees with a timeline and cost estimate for contracting with a private vendor to (1) conduct a technical evaluation of the proposed CSIS design and (2) develop a mitigation plan for high-risk areas identified by the DOIT risk assessment model. Pending SDE's response to the subcom-

mittees, we withhold recommendation on the \$6 million requested for CSIS in the Governor's budget.

Due to the potential value of CSIS, we think the system should be implemented as expeditiously as possible once a technical evaluation and risk mitigation plan are in place. We are hopeful, that with appropriate oversight from an external evaluator, many of the uncertainties currently surrounding CSIS can be removed.

Does SDE Have Adequate Staff Resources?

We recommend that the Department of Education report to the Legislature at budget hearings on resources that the department is dedicating to the California School Information Services Program development.

One of the benefits of the CSIS is that districts will be able to electronically report information that the state requires instead of sending hardcopy reports. However, SDE will have to coordinate with FCMAT, to ensure that CSIS will be able to generate state reporting forms automatically and transfer the data electronically to SDE. The department must be integrally involved in CSIS to ensure that FCMAT's design is coordinated with state reporting goals, and that the department is prepared to receive the data electronically. It is not clear, at present, that SDE has adequate staff resources assigned to this project. We therefore recommend that SDE report to the Legislature at budget hearings on the staff resources that it is dedicating to CSIS.

DEFERRED MAINTENANCE

We recommend that the Legislature restore \$115 million for deferred maintenance deleted by the Governor's budget proposal, so that the massive backlog of deferred maintenance of school facilities can continue to be addressed.

The 1998-99 Budget Act added \$115 million in ongoing Proposition 98 funds to help school districts address the state's backlog of deferred maintenance of school buildings (a backlog measured in the billions of dollars). These funds require a dollar-for-dollar match from local sources. The 1999-00 Governor's Budget proposes to delete this funding, on the basis that the school and higher education facilities bond measure enacted in November 1998 takes care of the deferred maintenance problem by providing funds for modernization of existing school buildings.

The bond measure (Proposition 1A) authorizes \$2.1 billion for school building modernization over the next four years. (As of July 1998, applications submitted by school districts for state funding of modernization projects totaled \$2.9 billion.) The bond measure and its related legislation (Chapter 407, Statutes of 1998 [SB 50, Greene]) restrict modernization funding to buildings that are at least 25 years old (20 years old in the case of portable classrooms). It also requires a local match of 20 percent of project cost.

According to the administration, these modernization projects will address deferred maintenance needs sufficiently to permit the state to abandon the deferred maintenance funding commitment made by the Legislature last year (made, not coincidentally, at the same time it was enacting the bond measure). In our view, the modernization projects will address a relatively small fraction of the state's massive deferred maintenance backlog. First, deferred maintenance needs will be handled only as a component of the modernization projects. Most project expenditures will be directed at nonmaintenance aspects of facility need such as installation of air conditioning equipment, fire safety improvements, asbestos removal, seismic upgrades, and the wiring of classrooms to accommodate educational technology. In fact, the bond legislation prohibits use of the modernization funds for "routine maintenance and repair." Second, many of the school buildings with deferred maintenance needs will not be modernized, because \$2.1 billion is not enough to modernize every eligible school building in the state.

It should be further noted that the bond measure requires school districts to make a significant commitment to ongoing facility maintenance and repair. As a condition of receiving state bond funds for either modernization or new construction projects, Chapter 407 requires districts to establish ". . . a restricted account within the district's general fund for the exclusive purpose of providing moneys for ongoing and major maintenance of school buildings. . ." The act requires districts to deposit annually at least 3 percent of their general fund budget into the maintenance account for the first 20 years following receipt of bond funds. Of particular note, the act permits these deposited funds to count toward the local match requirements of the state's current deferred maintenance program. This provision of the bond measure makes it clear that the Legislature intended the state's deferred maintenance program to continue for some period of time.

In view of the above, we believe that the commitment toward facility maintenance made by the Legislature in last year's budget act was intended to complement the bond measure. Accordingly, we recommend

that the Legislature restore \$115 million for deferred maintenance deleted by the Governor's budget proposal, so that the state's backlog of deferred maintenance of school facilities can continue to be addressed. Elsewhere in our analysis of K-12 issues, we make recommendations that make possible this \$115 million allocation within the minimum spending amount of Proposition 98.

K-12 EDUCATION FOR ADULTS IN CORRECTIONAL FACILITIES

We recommend that the Legislature (1) approve \$15 million of one-time Proposition 98 monies to reimburse local education agencies for inmate education costs in 1998-99 and (2) redesignate the \$16.3 million in Item 6110-158-0001 for 1999-00 program costs, in order to give the Legislature more control over program costs and funding levels. We further recommend conforming budget bill and statutory language changes.

The budget includes \$16.3 million from Proposition 98 funds to reimburse local education agencies for costs of providing adult education to inmates in county correctional facilities (Item 6110-158-0001). The 1998-99 Budget Act provided \$15.6 million for this purpose, but only \$14.2 million was allocated by the State Department of Education (SDE) to participating county offices of education and school districts. This discrepancy was not because local education agencies spent only \$14.2 million on inmate education. To the contrary, they spent more.

The discrepancy between appropriation and allocation arises from two related factors. First, unlike almost all other education programs, which are funded on a current basis, this program is funded on a reimbursement basis, a year in arrears. Second, this reimbursement basis of funding led the state to adopt rules to "cap" growth in program spending. (This was needed to minimize the state's exposure to potentially open-ended reimbursement claims.) These rules work "too well" in some circumstances. For example, Los Angeles County recently moved its female inmates into a new facility. During the move, a temporary decrease in program average daily attendance (ADA) was necessitated by a temporary loss of classroom space. The state's reimbursement rules, however, will subsequently apply annual growth caps to the *reduced* ADA base. This, despite the fact that after the moves are completed, the county intends to restore its educational program to the prior level of ADA. In this case, the state rules will prevent the county from ever recovering funding for its "lost" ADA (about \$290,000 for 180 ADA). With similar experiences elsewhere, each year the amount of the budget act appropria-

tion that is not spent for the program's purposes grows. In 1997-98, the unallocated amount was \$447,000. In 1998-99, the unallocated amount was \$1.4 million, or 9 percent of the amount appropriated by the Legislature.

In our view, the best solution to this problem is to place funding for the program on a current basis. This would make program funding consistent with almost all other K-12 programs and would give the Legislature greater control to prevent unintended and unfair consequences caused by the current fiscal arrangement. The existence of a large amount of one-time Proposition 98 funding resulting from recommendations elsewhere in this *Analysis* provides the opportunity to accomplish this. Accordingly, we recommend that the Legislature (1) appropriate \$15 million from one-time funds to reimburse local agencies for their 1998-99 correctional facilities program costs and (2) redesignate the \$16.3 million in Item 6110-158-0001 as payments for the 1999-00 program year. We further recommend conforming budget bill language and statutory language changes.

CHARTER SCHOOLS

Increase Federal Grants for Charter Schools

We recommend that the Legislature direct the State Department of Education to petition the federal government to increase the maximum amount for federal charter school implementation grants from \$150,000 per school to \$250,000, in order to more effectively use increased federal funds.

Under the federal Public Charter Schools grant program, the State Department of Education (SDE) receives funding from the federal Department of Education (DOE) to provide planning and implementation grants to organizations creating new charter schools. In 1998-99, the federal government awarded SDE a three-year, \$32.8 million grant, representing a significant increase in funding from the previous three-year grant. In the current year, the Legislature had budgeted \$3.4 million in federal funds for charter school grants, based upon the previous federal funding level. Under the new federal grant, SDE instead received \$7.6 million for the current year, and \$12.6 million per year for 1999-00 and 2000-01.

Since the federal budget was not enacted until October 1998, SDE had already issued a request for proposal (RFP) for local planning and implementation grants based upon the \$3.4 million level. The department estimates that it will only be able to allocate \$5.4 million of the

\$7.6 million available in the current year. This will leave a carryover of \$2.2 million. When added to the \$12.6 million already available from the federal grant for the budget year, SDE will have a total of \$14.8 million to allocate in 1999-00—almost three times the amount it plans to allocate in the current year.

Based on California's current grant application to DOE, SDE could allocate a maximum of \$50,000 per planning grant, and a maximum of \$150,000 per implementation grant. Several pieces of evidence suggest that the amount of the implementation grant may not be enough. First, the California State University's Institute for Education Reform found in a recent analysis that costs to start a typical elementary charter school could reasonably exceed \$250,000. In addition, preliminary findings from a DOE evaluation of charter schools suggest that lack of start-up funds is the most common barrier to implementing new charter schools. Finally SDE granted the current \$150,000 maximum to about 95 percent of the implementation grants in the last grant round, suggesting that many charter schools could have used more if it were available.

According to DOE staff, the state can file an amendment to its grant application to increase the maximum amount of the implementation grants. Given (1) the significant new funding available for this grant program, and (2) the evidence that actual implementation costs often are \$250,000 or more, we recommend that the Legislature adopt the following budget bill language to direct SDE to petition the federal government to increase the maximum level of charter school implementation grants to \$250,000 per school (Item 6110-112-890):

The State Department of Education shall file an amendment to California's Public Charter School grant application with the federal Department of Education to change the maximum amount that a charter school can receive for an implementation grant from \$150,000 to \$250,000.

Charter School Finance

We recommend that the State Department of Education (SDE) report to the Legislature prior to budget hearings on the status of the new charter school direct funding mechanism. The SDE should report on any additional costs to the state that could result from the new funding mechanism and options for the Legislature to minimize these costs.

Chapter 34, Statutes of 1998, (AB 544, Lempert) requires SDE to propose to the State Board of Education a new direct "block grant" funding mechanism for charter schools. To date, charter schools have received their funding on a program by program basis directly from districts. The

SDE, in consultation with a working group that includes our office, has reviewed a mechanism to allocate state funds for charter school operating costs in one comprehensive block grant. At the time this analysis was written, the board intended to consider the suggested funding mechanism at its February meeting.

The SDE estimates that the additional cost to the state of the funding approach under consideration would be \$13 million. The additional cost arises because for many state programs, funding does not depend upon student counts, but instead upon other factors. The largest example is school transportation. Transportation funds are distributed directly to districts based on historic costs and equalization factors, not on the basis of the number of students in the district or the number of students served. The SDE has indicated that, under their proposal, all districts would continue to receive the same amount of transportation funds as they did in the past and charter schools would receive transportation funds as well. This would result in an increase in total state transportation costs. Thus, for transportation, SDE's model simply allocates an additional amount to charter schools equal to state average transportation spending per average daily attendance (ADA) times charter school ADA. The model makes similar adjustments for other programs not funded on an ADA-basis.

Following the February board meeting, the department should report to the budget subcommittees on the specific approach adopted, the expected fiscal effects, and options for the Legislature to minimize additional state costs (including reasonable changes to existing law or budgeting formulas).

MOORPARK UNIFIED SCHOOL DISTRICT VOLUNTARY DESEGREGATION PROGRAM

We recommend that the Legislature reduce the reimbursement for Moorpark Unified School District's 1998-99 desegregation claim by \$380,000 and the budget-year amount by \$750,000, to exclude costs that are not reimbursable under existing law.

Districts that undertake voluntary desegregation programs can claim reimbursement from the state for 80 percent of their initial-year costs (both one-time costs and on-going costs). Some start-up costs cannot be claimed, such as construction costs. The on-going costs establish the district's base for reimbursement in subsequent years, as adjusted by the cost-of-living adjustment and average daily attendance growth.

The budget includes \$1.5 million from one-time Proposition 98 funds for Moorpark's 1998-99 claim (Item 6110-485, Proposition 98 Reversion Account). The budget also includes \$1.5 million from on-going Proposition 98 monies for reimbursement of Moorpark's 1999-00 desegregation costs (Item 6110-115-0001).

The district's claim for the first-year costs (1998-99) of their voluntary desegregation program includes the costs of a traffic signal installation. This is, however, a nonreimbursable cost under current law. After deducting this expense from their claim, the remaining amount that is reimbursable is \$1,120,000, or \$380,000 less than budgeted. Accordingly, we recommend that the Legislature reduce Item 6110-485 by \$380,000.

The district's budget-year amount also is over budgeted. The budget carries over one-time 1998-99 costs into the budget-year claim, which is not allowed. When appropriate adjustment is made to exclude these one-time costs, the amount justified for reimbursement is half the budgeted amount of \$1.5 million. Accordingly, we recommend that the Legislature reduce Item 6110-115-0001 by \$750,000.



INTRODUCTION

Higher Education

The budget proposes a \$265 million increase in General Fund expenditures for higher education in 1999-00. This is an increase of 3.6 percent above estimated expenditures in the current year. This funds enrollment growth and base increases for all three segments.

The budget proposes total spending for higher education in California of \$22 billion in 1999-00, which is \$664 million, or 3.1 percent, more than estimated expenditures in the current year. This consists of funding from all sources for all activities of the University of California (UC), California State University (CSU), California Community Colleges, Hastings College of the Law, the California Student Aid Commission, the California Postsecondary Education Commission, and various other costs. The \$22 billion includes activities at UC that are only marginally related to instruction, including providing medical care at its hospitals (\$1.7 billion) and managing three major U.S. Department of Energy laboratories (\$2.9 billion).

As Figure 1 shows (see next page), the budget proposes General Fund expenditures of \$7.7 billion for higher education in 1999-00. This is \$265 million, or 3.6 percent, higher than estimated for the current year. In addition, the budget assumes that local property taxes will contribute \$1.5 billion for the community colleges in 1999-00, an increase of \$75 million, or 5.2 percent.

Student fee and tuition revenue at all the higher education segments account for \$1.9 billion of proposed expenditures, which is \$71 million, or 4 percent, more than in the current year. This increase in student fee revenues results from higher education enrollment growth of 2.7 percent, as well as a 10 percent fee increase for *nonresident* students at CSU and UC. There are no fee increases proposed for *resident* students.

The budget proposes General Fund expenditures for UC of \$2.6 billion, which is \$46 million, or 1.8 percent, more than estimated General Fund expenditures in the current year. (After eliminating \$73 million in one-time expenditures in 1998-99, the actual increase in ongoing General

Fund support for UC is \$119 million, or 4.9 percent.) For CSU, the budget proposes General Fund expenditures of \$2.1 billion, an increase of \$11 million, or 0.5 percent over the current year. (After eliminating \$102 million in one-time spending in 1998-99, the actual increase in General Fund support for CSU is \$113 million, or 5.6 percent.) The combined General Fund, property tax revenue, and other fund amounts for the community colleges totals \$4.2 billion, which is \$191 million, or 4.8 percent, above 1998-99 estimated expenditures.

Figure 1**Higher Education Budget Summary**

1997-98 Through 1999-00
(Dollars in Millions)

	Actual 1997-98	Estimated 1998-99	Proposed 1999-00	Change From 1998-99	
				Amount	Percent
University of California					
General Fund	\$2,180.4	\$2,519.3	\$2,565.3	\$46.0	1.8%
Student fee revenue	1,001.6	1,021.1	1,068.7	47.5	4.7
Federal funds	3,904.7	4,055.6	4,185.6	130.1	3.2
Other funds	4,531.2	4,615.1	4,746.4	131.3	2.8
Totals	\$11,617.9	\$12,211.1	\$12,566.0	\$354.9	2.9%
California State University					
General Fund	\$1,872.4	\$2,127.6	\$2,138.4	\$10.8	0.5%
Student fee revenue	606.0	598.7	618.3	19.6	3.3
Federal and other funds	1,457.6	1,547.5	1,547.1	-0.4	—
Totals	\$3,936.0	\$4,273.8	\$4,303.8	\$30.0	0.7%
California Community Colleges					
General Fund	\$1,962.0	\$2,174.8	\$2,294.2	\$119.4	5.5%
Local property tax revenue	1,421.1	1,448.7	1,524.0	75.2	5.2
Student fee revenue	166.5	158.3	162.3	4.0	2.5
Other funds	181.1	213.3	206.0	-7.3	-3.4
Totals	\$3,730.6	\$3,995.2	\$4,186.5	\$191.2	4.8%
Hastings College of the Law					
General Fund	\$12.3	\$13.2	\$14.4	\$1.2	9.0%
Student fee revenue	12.0	12.8	12.6	-0.2	-1.7
Other funds	7.9	7.1	6.0	-1.1	-14.9
Totals	\$32.2	\$33.1	\$33.0	-\$0.1	-0.2%

Continued

	Actual 1997-98	Estimated 1998-99	Proposed 1999-00	Change From 1998-99	
				Amount	Percent
Student Aid Commission					
General Fund	\$295.2	\$352.1	\$386.4	\$34.3	9.7%
Federal and other funds	513.8	301.9	302.6	0.6	0.2
Totals	\$809.0	\$654.0	\$688.9	\$35.0	5.3%
Other Programs^a					
General Fund	\$302.4	\$273.9	\$327.2	\$53.3	19.5%
Federal and other funds	5.8	6.5	6.5	10.0	0.2
Totals	\$308.2	\$280.4	\$333.7	\$53.3	19.0%
Grand totals	\$20,433.8	\$21,447.6	\$22,111.9	\$664.3	3.1%
General Fund	\$6,624.5	\$7,461.0	\$7,725.9	\$265.0	3.6%
Property tax revenue	1,421.1	1,448.7	1,524.0	75.2	5.2
Student fee revenue	1,786.1	1,790.9	1,861.8	70.9	4.0
Federal and other funds	10,602.1	10,746.9	11,000.2	253.3	2.4
^a Includes California Postsecondary Education Commission, retirement costs for community college faculty, and debt service on higher education general obligation bonds. Excludes Council for Private Vocational and Postsecondary Education, the functions of which have been transferred to the Department of Consumer Affairs.					

MAJOR BUDGET CHANGES

Base Budget Increase and Enrollment Growth. Figure 2 (see next page) describes the major General Fund budget changes proposed by the Governor for UC, CSU, and the community colleges. The largest changes in the UC and CSU budgets are increases of 4 percent in each segment's General Fund base (\$79 million for CSU and \$94 million for UC). The Governor directs CSU and UC to accommodate a 1 percent increase in full-time-equivalent (FTE) enrollment from within these base increases. At the marginal cost of instruction estimated by the Department of Finance (DOF), this enrollment growth would cost \$14.9 million for CSU and \$11.6 million for UC. The balance of the base increases, \$63.8 million for CSU and \$82.7 million for UC, is not allocated to specific programs within the budgets. The budget contains a statutory cost-of-living-adjustment (COLA) of \$62.9 million, or 1.83 percent, for the community colleges.

General Fund Increase in Lieu of Fee Increases. Statute precludes an increase in CSU and UC resident student fees during 1999-00. The budget proposes additional General Fund increases (\$16.6 million for UC and \$13.6 million for CSU) equal to revenues that would have resulted from

a 4.15 percent increase in student fees at UC and CSU. The budget assumes that if fees were to rise, they would rise with California per capita income.

K-12 Improvement Initiatives. For all three segments, the budget proposal funds initiatives aimed at improving California's K-12 educational system. The programs, which include teacher preparation and K-12 staff development, have a total cost of \$37.4 million. These proposals are discussed in writeups which follow for each segment as well as in the K-12 portion of the education chapter.

Figure 2

**Higher Education
Proposed Major General Fund Changes
To Base for 1999-00**

University of California	Requested: \$2.6 billion
	Increase^a: \$119 million (+4.9%)

- + \$94.2 million for a 4 percent base increase (includes 1,470 full-time-equivalent [FTE] enrollment growth)
 - + \$24.6 million for an additional 3,130 FTE enrollment growth
 - + \$16.6 million in lieu of fee increase
 - + \$12 million for Reading Professional Development Institutes (\$0.5 million in 1998-99)
 - + \$0.5 million for Governor's Principal Leadership Academy (\$0.1 million in 1998-99)
 - + \$0.5 million for Governor's Teacher Scholars Program (\$0.1 million in 1998-99)
 - + \$2.5 million for expanded substance abuse research
-
- \$72.5 million to eliminate one-time spending in 1998-99
 - \$15 million to reflect a 10 percent increase in nonresident fees
 - \$14.6 million to reflect additional contract/grant overhead and income
 - \$10 million to adjust for funds typically unexpended at end of year

Continued

California State University	Requested: \$2.1 billion
	Increase^a: \$113 million (+5.6%)

- + \$78.6 million for a 4 percent base increase (includes 2,710 FTE enrollment growth)
 - + \$31.1 million for an additional 5,671 FTE enrollment growth
 - + \$13.6 million in lieu of fee increase
 - + \$2 million to extend teacher recruitment program
-
- \$102 million to eliminate one-time spending in 1998-99
 - \$10 million to adjust for funds typically unexpended at end of year
 - \$6 million to reflect a 10 percent increase in nonresident fees

California Community Colleges, Local Assistance	Requested: \$2.3 billion
	Increase: \$109 million (+5.5%)

- + \$83.8 million for enrollment growth (2.5 percent)
 - + \$62.9 million for statutory cost-of-living-adjustment (1.83 percent)
 - + \$20.5 million for lease-payment debt service
 - + \$10.6 million for High School Report Card program
 - + \$10 million for Partnership for Excellence
 - + \$10 million for Teacher and Reading Development
 - + \$2.5 million for transfer and articulation initiatives
 - + \$1.8 million for Middle College High Schools
-
- \$75.2 million offset for property tax revenues and fees

^a From 1998-99 base adjusted for one-time expenditures.

ENROLLMENT

As Figure 3 shows (see next page), the budget proposes higher education FTE student enrollments of 1.4 million, or 2.7 percent, over the budgeted enrollments for the current year. The budget provides funds for a

3.1 percent enrollment increase for UC and CSU, and a 2.5 percent increase for the community colleges.

The budget includes \$84 million for the community colleges for instruction and other operational costs to accommodate the additional students. Enrollment funding for both UC and CSU is broken into two components. First, the budget proposes that both UC and CSU absorb the costs associated with 1 percent enrollment growth from within the proposed 4 percent General Fund base increase. The budget then provides extra funding (\$31 million for UC and \$25 million for CSU) for an additional 2.1 percent FTE enrollment growth.

Figure 3				
Higher Education Full-Time-Equivalent (FTE) Students				
<i>1997-98 Through 1999-00</i>				
	Actual 1997-98	Budgeted 1998-99	Proposed 1999-00	Change From 1998-99
University of California				
Undergraduate	119,417	120,415	124,019	3.0%
Postbaccalaureate	435	400	612	53.0
Graduate	25,682	26,185	26,969	2.9
UC totals	145,534	147,000	151,600	3.1%
California State University^b				
Undergraduate	228,909	230,649	238,354	3.3%
Postbaccalaureate	17,610	19,654	18,360	-6.6
Graduate	21,465	20,719	22,439	8.3
CSU totals	267,984	271,022	279,403	3.1%
California Community Colleges				
	921,933	949,951	973,331	2.5%
Hastings College of the Law				
	1,156	1,146	1,119	-2.4%
Grand totals	1,348,884	1,380,825	1,417,519	2.7%
^a The UC FTE student counts in this figure do not include 12,066 FTE students in the health sciences programs in 1998-99 and 1999-00. ^b While the FTE totals for CSU accurately reflect proposed enrollment growth, the detail shown by enrollment type is subject to change.				

STUDENT FEES

Figure 4 shows student fee levels in public higher education. Chapter 853, Statutes of 1997 (AB 1318, Ducheny), reduced annual resident undergraduate fees by 5 percent at CSU (-\$78) and UC (-\$190) for 1998-99 and keeps the fees at that lower level for 1999-00. The act also

Figure 4

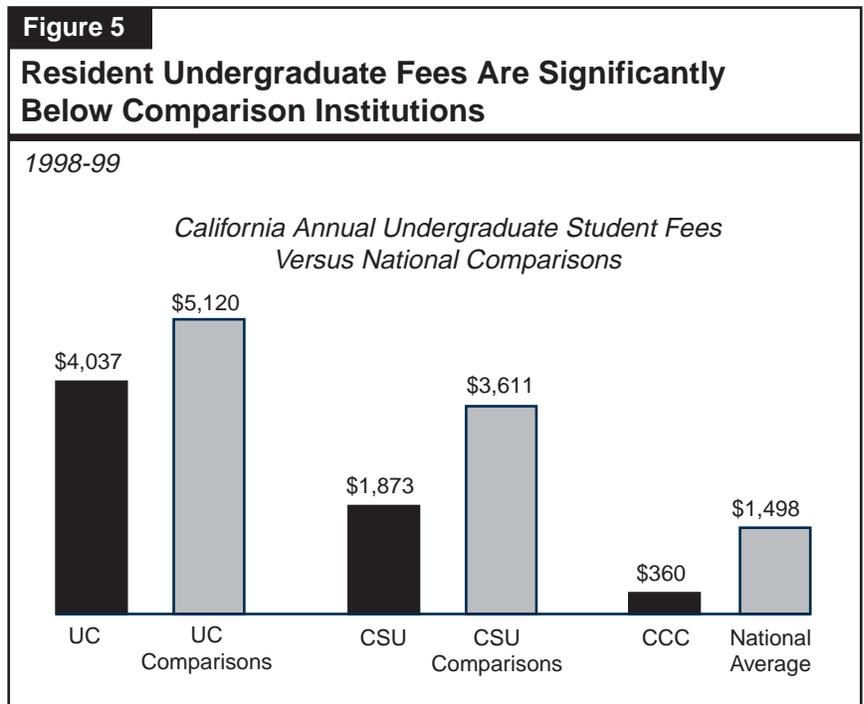
Higher Education Annual Student Fees

1997-98 Through 1999-00

	1997-98	1998-99	Proposed 1999-00	Change From 1998-99
University of California				
Undergraduate	\$3,799	\$3,609	\$3,609	—
Graduate	3,799	3,799	3,799	—
Professional Students:				
Law	10,175	10,175	10,175	—
Business	9,799	9,799	9,799	—
Medicine	9,175	9,175	9,175	—
Dentistry	8,799	8,799	8,799	—
Veterinary medicine	7,799	7,799	7,799	—
Pharmacy	6,799	6,799	6,799	—
Additional fees, all students ^a :				
Undergraduate	387	428	428	—
Graduate	794	839	839	—
Additional fee, nonresidents	8,984	9,384	10,320	10.0%
California State University				
Undergraduates	\$1,584	\$1,506	\$1,506	—
Graduates	1,584	1,584	1,584	—
Additional campus fees	362	367	367	—
Additional fee, nonresidents	7,380	7,380	8,118	10.0%
California Community Colleges^b				
	\$390	\$360	\$360	—
Hastings College of the Law				
Education and registration fees	\$10,175	\$10,175	\$10,175	—
Other fees ^c	992	992	992	—
Additional fee, nonresidents	8,392	8,770	8,770	—
^a Represents average additional fees across all campuses.				
^b Based on two 15-credit semesters at \$12 per credit unit.				
^c Includes an insurance fee of \$738 which can be waived with proof of insurance.				

maintains graduate and professional fees at the 1997-98 level through 1999-00. Chapter 853 reduced community college fees from \$13 per credit unit to \$12 per credit unit through 1999-00. For a full-time community college student, annual fees fell from \$390 to \$360.

Figure 5 shows that California’s higher education fees are among the lowest in the country. The 1999-00 resident fees for UC undergraduate students will be \$4,037, or 21 percent, lower than average current fees at the four public universities in other states that UC uses to compare faculty salaries. The 1999-00 resident fees for CSU undergraduates will be \$1,873, or 52 percent, lower than the average of fees at the 15 public universities in other states with which CSU compares itself. Community colleges do not have a similar comparison group. However, California community college fees for 1999-00—\$360 per year for a full-time student—are the nation’s lowest, and about one-fourth of the national average for public two-year institutions.



DETAIL MISSING ON PROGRAM SPENDING

The Governor's budget provides little detail on how CSU and UC will allocate funds among various programs. The budget document instead lumps most of the changes in one item called "provisions for allocation." The Governor's budget states that CSU and UC will develop specific budget plans in the spring. Until UC, CSU, and DOF report this information, we cannot evaluate how the proposed budget will affect UC's and CSU's programs.

DEPARTMENTAL ISSUES

Higher Education

UNIVERSITY OF CALIFORNIA (6440)

The University of California (UC) includes eight general campuses and one health science campus. The budget proposes General Fund spending of \$2.6 billion. This is an increase of \$46 million, or 1.8 percent, over the current year. After adjusting for one-time expenditures in the current year (\$73.2 million), however, the increase is \$119.2 million, or 4.9 percent, above 1998-99 spending. The bulk of this increase consists of \$94.2 million for a general 4 percent increase in the university's base budget. Figure 1 (see next page) summarizes the various changes in UC's budget.

Enrollment Growth of 3.1 Percent. The budget assumes that UC will serve 4,600, or 3.1 percent, more full-time equivalent (FTE) students in 1999-00 than was budgeted for 1998-99. The budget assumes that UC will be able to serve about one-third of these additional students (1,470 FTE students) within the 4 percent general budget increase of \$94.2 million. It provides an additional \$24.6 million for the balance of projected enrollment growth (3,130 FTE students).

No Increase in Resident Student Fees. The budget includes \$16.6 million to offset a 4.15 percent fee increase for resident students that UC says it would have requested in the absence of statutory restrictions. Chapter 853, Statutes of 1997 (AB 1318, Ducheny), directed CSU and asked UC to lower resident undergraduate fees by 5 percent in 1998-99, and to freeze them at that level for 1999-00. That act also directed CSU and asked UC to freeze resident graduate fees at 1997-98 levels through

Figure 1	
Governor's General Fund Proposal for University of California	
<i>1999-00 (In Thousands)</i>	
1998-99 Initial Budget	\$2,518,890
Mid-Year Adjustments	
Governor's K-12 initiatives (start-up)—proposed legislation	\$700
PERS rate adjustment	-241
1998-99 adjusted budget (revised)	\$2,519,349
Delete one-time funding	-73,200
1998-99 adjusted for one-time funding	\$2,446,149
New Spending	
4 percent base increase (includes 1 percent enrollment growth)	\$94,223
Additional enrollment growth (2.1%)	24,639
General Fund in lieu of fee increase	16,603
Annuitant benefit increase for dental	8,523
Substance abuse research	2,500
Governor's principal leadership academy	400
Governor's teacher scholars	400
Reading professional development institutes	5,500
Local assistance for reading institutes (Proposition 98)	6,000
Subtotal	\$158,788
Offsets (new income and other)	
Additional contract/grant overhead and income	-\$14,600
Unexpended funds adjustment	-10,000
10 percent increase in nonresident fees	-15,000
Subtotal	-\$39,600
1999-00 (Proposed)	\$2,565,337
Change from 1998-99 (revised)	
Amount	\$45,988
Percent	1.8%
After adjusting for one-time expenditures in current year	
Amount	\$119,488
Percent	4.9%

1999-00. The budget also includes \$15 million in increased revenue from raising fees for *nonresident* students by 10 percent.

THE UC BUDGET DETAIL TO BE AVAILABLE IN SPRING

We withhold recommendation on the proposed changes to the university's budget, pending receipt of complete details on how it proposes to allocate its budget for 1999-00.

The Governor's budget provides little detail on how UC will allocate funds among its various programs. The budget document instead lumps most of the changes in one item called "provisions for allocations," which increases by over \$135 million in the budget year. The Governor's budget says "UC will develop a specific budget plan in the spring." Until UC and the Department of Finance (DOF) provide this additional detail, we cannot evaluate how the proposed budget will affect UC's programs. Consequently, we withhold recommendation on the unallocated proposed changes to the university's budget and recommend that it and the DOF provide the Legislature with a comprehensive budget for the university as soon as possible.

THE UC SHOULD SUBMIT PLAN FOR EVALUATING OUTREACH PROGRAMS

We recommend deletion of \$1.5 million for University of California (UC) to study outreach programs, because UC has already received funding for this activity. We further recommend that UC provide the Legislature with a detailed plan for evaluating the relative cost-effectiveness of the various student-outreach programs before hearings on its 1999-00 budget.

Background

The 1997-98 *Budget Act* appropriated \$1 million from the General Fund to increase student-outreach programs in the university. This increased total university spending on student outreach to over \$60 million per year. The 1998-99 *Budget Act* appropriated another \$38.5 million to expand UC's outreach programs. Out of this \$38.5 million, the Legislature provided \$1.5 million to UC specifically for a "long-term evaluation of the effectiveness of outreach programs, including college graduation rates for pupils who participated in the K-12 programs, regardless of the college attended."

Legislature Has Asked UC to Develop Evaluation Plans. Along with its augmentation of UC outreach programs in 1997-98, the Legislature adopted supplemental report language that directed UC to submit to the Legislature, by March 15, 1998, a proposed methodology and implementation plan for evaluating outreach programs. That language required UC, in consultation with the Legislative Analyst's Office and the DOF, to develop a statistically valid method of comparing the cost and effectiveness of each outreach program in improving student performance.

In response to the report requirement, the university contracted with a private firm to develop a plan for evaluating outreach programs. In spring 1998, UC provided our office with an "Outline for Improving the Evaluation and Assessment of University Outreach Programs." That document fell far short of describing a statistically valid methodology for evaluating outreach programs as called for by the Legislature. Instead, it discussed in only broad generalities what an evaluation should address. The university has acknowledged the inadequacy of the document, but has not provided any new plan.

UC Should Deliver a Detailed Evaluation Plan. By providing UC with \$1.5 million in the 1998-99 Budget Act to evaluate outreach programs, the Legislature underscored its desire to evaluate how well the various outreach programs perform. In light of UC's delay in delivering a satisfactory evaluation plan, it is important that it do so quickly. We recommend, therefore, that the Legislature ask UC to present a detailed evaluation plan in time for budget hearings. This will give the Legislature the opportunity to comment on the proposed methodology UC envisions for its studies. In keeping with the Legislature's directive in supplemental report language, UC should consult with our office and the DOF as it develops its evaluation plan.

Additional Funding for Evaluation Is Not Justified. The university has not provided any indication that it would need more than the \$1.5 million provided in the 1998-99 Budget Act to evaluate outreach programs. Consequently, we recommend that the \$1.5 million be deleted from Item 6440-001-0001.

THE UC SHOULD REPORT AT BUDGET HEARINGS ON PROGRESS TOWARD A TENTH CAMPUS

We recommend that the University of California report prior to budget hearings on expenditures, progress, and plans for the proposed tenth campus in Merced.

The Governor's budget includes \$9.9 million from the General Fund to UC for (1) planning and start-up costs associated with academic programs to be offered in the San Joaquin Valley, and (2) planning, start-up costs, and ongoing support for planning and development of a tenth campus in Merced County. The *1998-99 Budget Act* included \$9.9 million and the *1997-98 Budget Act* included \$4.9 million for this purpose. The university indicates that it will need \$9.9 million per year to prepare for opening the campus in 2005, with a student enrollment of 2,000. (It plans to expand the campus to 5,000 students.) With its 1998-99 appropriation, the Legislature adopted supplemental report language requiring UC to submit an annual report to the budget committees by February 15, describing past-year expenditures and planned expenditures for the budget year. At the time our *Analysis* was being published, UC had not yet submitted its report.

So that the Legislature can track expenditures and progress on the proposed tenth campus in Merced, we recommend that the university submit its report to the budget committees prior to hearings on the UC budget. This will give the budget subcommittee an opportunity to review UC's past and planned expenditures for the proposed campus.

K-12 INITIATIVES AT UC ARE MISPLACED

The Governor's budget requests \$58 million in new General Fund resources and \$32 million of federal Goals 2000 funds for new programs to enhance K-12 teacher quality. Of these proposed funds, \$13 million is for three programs at UC. Earlier in this chapter, we analyze the K-12 initiatives, including the three proposals involving UC. Below, we summarize our analysis of the three UC proposals.

Shift Proposed Funding for Reading Professional Development Institutes

We recommend that the Legislature delete \$12 million (\$6 million General Fund for support and \$6 million Proposition 98 local assistance) requested for Reading Professional Development Institutes because the proposed training can be provided through existing programs. We recommend providing these funds instead to school districts for staff development priorities that they identify.

The budget request includes \$6 million for UC to plan, develop, and administer "Reading Professional Development Institutes" to help K-12 teachers and administrators raise reading levels in schools. The budget

also requests \$6 million in Proposition 98 funds to pay stipends to teachers attending the UC institutes. The budget includes these Proposition 98 funds as local assistance in UC's budget. The university would pass these funds on to districts participating in these institutes so that the districts could pay a stipend to participants.

In our analysis of the Governor's K-12 initiatives, we recommend that the Legislature delete these funds from the UC budget, for two main reasons:

- ***California Subject Matter Projects Provide Training Already.*** The budget continues past legislative policy and appropriates \$15 million to UC for six subject matter projects (UC and CSU fund another three projects using their own special funds), including one in reading and literature. The proposed Reading Professional Development Institutes are similar in form and content to the reading and literature subject matter project. We do not think it is necessary to create a new training program when an effective and proven program already exists.
- ***The Proposal Should Give School Districts More Flexibility.*** Under the Governor's proposal, the \$12 million would be available only for UC's reading institutes. If the \$12 million were instead provided to school districts for staff development, the districts could choose among those programs that they determine best meet their particular staff-training needs. Districts could choose to send staff to UC for training, if they determined that UC programs best met their needs.

For these reasons, we recommend deleting the \$12 million for the proposed Reading Professional Development Institutes. Instead, we recommend providing the \$12 million to districts as part of a staff development block grant. (For more discussion about this block grant, please see our write-up on teacher quality earlier in this chapter.)

Shift \$1 Million Proposed for Teacher-Scholars and Principal-Leadership Initiatives to Cal Grant T Program

We recommend that the Legislature delete \$1 million requested for teacher-scholars and principal leadership institutes at University of California, because providing the funds for Cal Grant T scholarships would give prospective teachers greater flexibility in choosing programs that meet their educational and career objectives.

The Governor's budget requests \$500,000 in UC's budget for plans for a program to prepare 400 students for teaching credentials and education masters degrees. The budget requests another \$500,000 for plans for a program to assist 400 credentialed teachers in becoming school principals. If UC considers the proposed programs a high priority for improvement of its current teacher and administrator training programs, it may be appropriate for the system to develop these types of programs. However, we believe the state can better use its resources by using the proposed \$1 million instead for Cal Grant T scholarships. Additional scholarships would allow prospective teachers to choose among public or private accredited teacher-training programs. We therefore recommend deleting \$1 million for the planning of these programs. We recommend using the \$1 million instead to expand the Cal Grant T program. This would provide an additional 220 prospective teachers with teacher preparation scholarships.

Accordingly, we recommend shifting the \$1 million requested to the Cal Grant program. (Reduce Item 6440-001-0001 by \$1 million and increase Item 7980-101-0001 by \$1 million.)



CALIFORNIA STATE UNIVERSITY (6610)

The California State University (CSU) consists of 22 campuses. The budget proposes General Fund spending of \$2.1 billion, an increase of \$10.8 million, or half a percent, over the current year. Adjusting for one-time expenditures in 1998-99, the proposed budget increases CSU's General Fund spending by \$113 million, or 5.6 percent, in 1999-00. Figure 1 summarizes the sources and uses of this General Fund increase.

General Fund Base Increase of 4 Percent. The budget includes an increase of 4 percent, or \$78.6 million, in CSU's General Fund base. Most of this increase is unallocated, however, CSU is expected to accommodate 1 percent enrollment growth from within these funds.

Enrollment Growth of 3.1 Percent. The budget proposes that CSU serve 8,381, or 3.1 percent, more full-time-equivalent (FTE) students in 1999-00 than the number for which it was budgeted in 1998-99. The budget states that CSU will serve 2,710 of these FTE students from within the 4 percent General Fund base increase. The budget provides an additional \$31.1 million to serve the balance of the enrollment growth (5,671 FTE students).

No Increase in Resident Student Fees. The budget includes \$13.6 million in lieu of a 4.15 percent student fee increase which CSU says it would have requested in the absence of statutory restrictions. Chapter 853, Statutes of 1997 (AB 1318, Ducheny), directed CSU and asked University of California (UC) to lower resident undergraduate student fees by 5 percent, and to freeze them at that level through 1999-00. The act also directed CSU and asked UC to freeze resident graduate student fees at 1997-98 levels through 1999-00. The budget includes \$6 million in increased revenues, resulting from a 10 percent increase in fees for *nonresident* students.

Figure 1**Governor's General Fund Budget
Proposal for California State University**

1999-00

(Dollars in Thousands)

1998-99 Initial Budget	\$2,164,046
Mid-Year Adjustments	
Public Employees' Retirement System rate adjustment	-\$60,861
Carryover/reappropriations	24,593
Other adjustments	-182
1998-99 Budget (Revised)	\$2,127,596
Baseline Funding Adjustments	
Delete one-time funding in 1998-99 budget	-\$77,480
Delete one-time carry-over funds in 1998-99 budget	-24,593
1998-99 Adjusted for One-Time Spending	\$2,025,523
New Spending	
4 percent base increase (includes 1 percent enrollment growth)	\$78,630
Additional enrollment growth (2.1 percent)	31,117
General Fund in lieu of fee increase	13,593
Teacher recruitment	2,000
Applied agricultural research	1,000
Channel Islands Campus	1,165
Other	1,352
Subtotal	\$128,857
Offsets (New Income and Other)	
Unexpended funds adjustment	-\$10,000
10 percent increase in nonresident fees	-6,000
Subtotal	-\$16,000
1999-00 (proposed)	\$2,138,380
Change from 1998-99 (revised)	
Amount	\$10,784
Percent	0.5%
After adjusting for one-time expenditures in current year	
Amount	\$112,857
Percent	5.6%

The CSU Budget Detail To Be Available in Spring

We withhold recommendation on the proposed changes to California State University's total budget, pending receipt of complete details on how it proposes to allocate its budget for 1999-00.

The Governor's budget provides little detail on how CSU will allocate funds among its various programs. The budget document instead lumps most of the changes in one item called "provisions for allocation," which increases by over \$90 million in the budget year. The Governor's budget says that "CSU will develop a specific budget plan in the spring." Until CSU and the Department of Finance (DOF) provide this additional detail, we cannot evaluate how the proposed budget will affect CSU's programs. Consequently, we withhold recommendation on the proposed changes to CSU's budget and recommend that it and DOF provide the Legislature with a comprehensive budget for CSU as soon as possible.

One-Time Carryover Funds: Encourage Spending on Pressing Campus Needs

We recommend that the Legislature amend budget bill language to exempt planned expenditures for deferred maintenance and instructional equipment replacement from a general \$15 million cap on funds California State University carries over from 1998-99 Budget Act appropriations.

Past Guidelines for One-Time Carryover Funds. Past budget acts have reappropriated unexpended General Fund monies provided to CSU in preceding budget acts. These reappropriations allowed CSU to "carry-over" these funds for two years beyond the budget year. In adopting this provision, the Legislature sought to remove an incentive for CSU to rapidly and, potentially, wastefully "spend down" money at the end of the budget year. In some years, the budget act has directed CSU to use the one-time carryover funds for specific purposes but, often the act has given CSU wide latitude in spending the monies. The acts have required CSU to propose an expenditure plan to DOF and the Joint Legislative Budget Committee, by September 30, for the balance of unexpended funds from the prior year.

The budget acts for the last two years limited CSU to \$15 million in one-time carryover funds. They called for unexpended funds in excess of this amount to revert back to the General Fund. They also specified that the \$15 million cap applied only to funds generated from CSU's "systemwide" allocations. This meant that the cap did not apply to unex-

pending funds that CSU had allocated to specific campuses or to the Chancellor's Office.

One-Time Carryover Fund Amounts and Uses in Recent Years. For multiple reasons, including the size of CSU's overall appropriation and CSU's spending choices, the amount of funds that CSU has carried forward has varied considerably from year to year (see Figure 2). In recent years, the amount carried forward has ranged from \$10.8 million to \$39.2 million. Typically, the larger share of these funds is carried forward in the systemwide allocation.

Figure 2			
One-Time Carryover Funds			
<i>1995-96 Through 1997-98 (In Millions)</i>			
	Carryover From Budget Act		
	1995-96	1996-97	1997-98
Systemwide	\$22.6	\$8.9	\$14.2
Campuses and Chancellor's Office	16.6	1.9	5.6
Totals	\$39.2	\$10.8	\$19.8

The CSU has used one-time carryover funds for a variety of purposes. Systemwide funds have been used for technology initiatives, special repairs, new campus start-up costs, unexpected needs, and other purposes. Carryover funds allocated to campuses and the Chancellor's Office have been used for campus-initiated projects, technology upgrades, and acquisition of library books and materials.

The Proposed Language for the 1999-00 Budget Bill Follows Recent Trends. Consistent with recent budgets, the Governor proposes language for the 1999-00 Budget Bill that would allow CSU to carry forward up to \$15 million in unexpended systemwide funds from the 1998-99 Budget Act. The proposed language does not direct CSU to spend the one-time carryover funds for specific purposes. As in past years, the proposed language imposes reporting standards and time frames similar to those described above.

Changes to Budget Bill Language Needed. In order to impose a meaningful cap on one-time carryover funds and to ensure that leftover re-

sources are directed toward pressing campus needs, we recommend the following changes in the budget bill language.

- ***Eliminate the Distinction Between Systemwide and Campus/Chancellor's Office Balances.*** Because CSU is able to move funds freely between the systemwide and the campus/Chancellor's Office allocations, distinctions between these allocations are not meaningful. The CSU can easily circumvent a cap by allocating amounts over \$15 million to the campuses and the Chancellor's Office. By counting all unexpended allocations toward the \$15 million cap, the Legislature would create a meaningful limit on carryover funds that CSU could spend without legislative direction.
- ***Encourage Spending on Pressing Campus Needs.*** By exempting from the cap funds designated for deferred maintenance and instructional equipment replacement, the Legislature can provide an incentive for CSU to economize in its programs and invest in these pressing campus needs. Over the past several years, the Legislature has provided funding for deferred maintenance and instructional equipment replacement at CSU. The CSU has also recognized these critical needs and sought additional resources to address them. In their *1999-00 Trustees' Budget*, CSU reported a deferred maintenance backlog of \$331 million and requested \$20 million in General Fund appropriations to reduce this amount. In the same document, CSU requested \$15 million in General Fund appropriations to help fill an ongoing shortfall in funding for instructional equipment replacement.

Given the importance of maintaining CSU's capital and instructional equipment assets, we recommend that expenditures for these purposes be exempt from the cap on reappropriation of carryover funds. We therefore recommend amending Item 6610-490 in the budget bill to include the following provision:

Of the funds reappropriated by this item from Item 6610-001-0001 of the *1998-99 Budget Act*, up to \$15 million shall be available for the general support of the California State University. As of June 30, 1999, the balance in excess of \$15 million shall revert to the General Fund. Unexpended funds which the California State University designates for the purposes of reducing the backlog of deferred maintenance and replacing worn or outdated instructional equipment shall not be counted toward this limit.

THE CSU CANNOT DOCUMENT GROWTH IN TEACHER PREPARATION ENROLLMENTS

We recommend that California State University (CSU) report at budget hearings regarding its progress toward meeting the 2,702 full-time equivalent enrollment growth in teacher preparation programs funded in the prior two budget acts. In addition, CSU should report on its methods for tracking teacher training enrollments and expenditures and whether these are reliable. If CSU is unable to document this enrollment growth, we recommend permanently shifting \$13.8 million from CSU's base budget to fund an increase in the number of Cal Grant T awards.

As one method of addressing the demand for K-12 teachers, the state provided CSU over the last two years \$13.8 million specifically to increase CSU's teacher preparation enrollments by 2,702 FTE students. The 1997-98 *Budget Act* appropriated \$4.5 million under the Economic Improvement Initiative for the purpose of expanding teacher training enrollments by 881 FTE students. The 1998-99 *Budget Act* appropriated another \$9.3 million to expand these enrollments by an additional 1,821 FTE students.

Has CSU Increased Teacher Preparation Enrollments as Promised?

Budget Detail Indicates a Decline in CSU Postbaccalaureate Enrollments. At CSU, most students at the postbaccalaureate level are students in "fifth-year" teacher preparation programs. It is, therefore, disturbing that the 1999-00 *Governor's Budget* indicates a decrease of 1,294 FTE postbaccalaureate students, or 6.6 percent, from the number budgeted for 1998-99. A footnote in the Governor's budget indicates that the FTE enrollment numbers by level are "for display purposes only, and do not constitute an enrollment plan." When we asked DOF to provide information regarding the proposed distribution of FTE enrollment growth by level, they told us that they set aggregate growth levels but give CSU the flexibility to allocate that growth across levels of study during the budget year.

The CSU Has No Reliable Enrollment Data for Teacher Preparation Programs. When we asked the Chancellor's Office to provide head count and FTE student counts for its teacher preparation programs, we were told that this information was not available. The CSU officials described a systemwide record-keeping failure in which Schools of Education did not report full or timely information regarding teacher preparation stu-

dents to their campus' admissions and records departments. In turn, campuses apparently reported inaccurate information to the Chancellor's Office. This failure, according to CSU, has existed for many years, rendering unusable most data collected on teacher preparation program enrollments.

Without Data, the Legislature Cannot Measure Increase. Determining whether CSU increased its teacher training enrollments by 2,702 FTE students requires two pieces of information: the number of teacher training FTE enrollments before and after the state made that investment. Without accurate enrollment data, it is impossible to determine whether CSU achieved an increase of 2,702 FTE enrollments in its teacher preparation programs as it promised when asking for the \$13.8 million. This lack of information regarding CSU's teacher preparation programs undermines the Legislature's ability to (1) monitor the effects of teacher training policies and (2) hold CSU accountable for properly spending its General Fund appropriation.

Record-Keeping Reforms Implemented, CSU Reports

The CSU officials with whom we spoke acknowledged the problem in tracking enrollments and described changes that CSU is implementing. The CSU reports that the Chancellor's Office has worked with Schools of Education and campus admissions and records offices to improve reporting methods. Under the new procedures, all enrollment-data files that campuses send to the Chancellor's Office will include a marker identifying whether a student is enrolled in a teacher preparation program. According to CSU, the new reporting procedures will also identify whether a student is pursuing a multiple subject, single subject, or special teaching credential. The CSU estimates that it will take up to a year to phase-in these reforms and produce more reliable data.

Despite this explanation, it is difficult to understand why CSU cannot determine how many students it has enrolled in the past or is enrolling today. When CSU committed to the Legislature that it would increase teacher preparation enrollments by 2,702 FTE students, how did it intend to measure results?

If No Proof, Shift \$13.8 million From CSU to Cal Grant T Program

If CSU cannot provide valid evidence that it has increased teacher preparation enrollments by 2,702 FTE students, we recommend the Legislature permanently shift the \$13.8 million in CSU's base budget for this

purpose to the Cal Grant T Program to increase the number of Cal Grant T awards.

Background on Cal Grant T Awards. These awards provide financial aid to students who have been admitted to teacher preparation programs accredited by the Commission on Teacher Credentialing. Because these awards are distributed only to students enrolled in teacher training programs, the Legislature will be assured that the investment is resulting in increased enrollments.

Cal Grant T awards, which are administered by the Student Aid Commission, were established under Chapter 336, Statutes of 1998 (SB 2064, O'Connell). The 1998-99 Budget Act appropriated \$10 million for awards in the first year. During 1998-99, the commission has issued 2,044 awards totaling \$9.4 million. The students used the awards at both public and private teacher training programs. Of students receiving awards, 51 percent (1,046) enrolled at CSU, 38 percent (771) enrolled at independent institutions, and 11 percent (227) enrolled at the University of California. According to Student Aid Commission officials, it received between 6,000 and 7,000 applications during the seven-week application period. This high number of students applied for grants even though the grants became available only after the start of the fall term. (Late passage of the budget prevented the commission from issuing them sooner.) Based on this strong initial response, it seems likely that there is ample demand to expand the number of available awards. Additional funding of \$13.8 million would increase the number of Cal Grant T awards from 2,044 to over 5,000.

So that the Legislature can determine whether CSU has met the conditions tied to the \$13.8 million appropriated by the last two budget acts, we recommend that CSU provide detail at budget hearings on its progress toward achieving a 2,702 FTE student increase in its teacher preparation enrollments. If CSU is unable to document this enrollment growth, we recommend redirecting \$13.8 million from CSU to the Cal Grant T Program to increase the number of Cal Grant T awards.



CALIFORNIA COMMUNITY COLLEGES (6870)

The budget includes a \$195 million increase in California Community College Proposition 98 funding in the budget year. This is \$107 per student, or 2.8 percent more than the revised estimate of per-student expenditures in the current year.

The California Community Colleges (CCC) provide instruction to about 1.5 million adults at 106 colleges operated by 71 locally governed districts throughout the state. The system offers academic and occupational programs at the lower-division (freshman and sophomore) level. Based on agreements with local school districts, some college districts offer a variety of adult education programs including basic skills education, citizenship instruction, vocational, avocational, and recreational programs. Finally, pursuant to state law, many colleges have established programs intended to further regional economic development.

Figure 1 shows the budget from all significant sources for community college education for the budget year and the two previous years. As the figure shows, CCC spending from all sources is projected to increase by \$278 million, or 5.7 percent, above the current-year level.

Proposition 98 funding constitutes about three-fourths of overall community college funding. For 1999-00, the budget proposes to increase community college Proposition 98 funding by \$195 million. This represents an increase of \$107 per student to \$3,912, or a 2.8 percent increase from the revised 1998-99 per-student amount.

Governor's Budget Proposals

The budget proposes a General Fund Proposition 98 funding increase of \$119.5 million for 1999-00. Figure 2 (see page 130) shows the changes proposed for community college Proposition 98 funds in the budget year. The major changes include:

Figure 1					
Community College Budget Summary					
<i>1997-98 Through 1999-00 (Dollars in Millions)</i>					
	Actual 1997-98	Estimated 1998-99	Proposed 1999-00	Change From 1998-99	
				Amount	Percent
Proposition 98 (CCC)					
State (General Fund)	\$1,952.4	\$2,163.9	\$2,283.4	\$119.5	5.5%
Local property tax revenue	1,421.1	1,448.7	1,524.0	75.2	5.2
Subtotals, Proposition 98	\$3,373.4	\$3,612.7	\$3,807.4	\$194.7	5.4%
Other Funds					
General Fund					
Teachers' retirement	\$77.3	\$47.8	\$79.5	\$31.7	66.3%
Bond payments	69.0	69.3	76.0	6.7	9.7
State operations	9.6	10.5	10.8	0.3	2.4
Other programs	—	0.4	—	-0.4	-100.0
State school funds	1.4	1.2	1.2	—	—
Other state funds	6.0	8.1	8.0	-0.1	-1.2
State lottery funds	108.8	121.7	126.3	4.6	3.8
Student fees	166.5	158.3	162.3	4.0	2.5
Federal funds	149.9	149.9	149.9	—	—
Other local	666.9	711.2	748.0	36.8	5.2
Totals	\$4,628.9	\$4,891.1	\$5,169.4	\$278.3	5.7%
Students					
Enrollment (head count)	1,445,335	1,475,711	1,515,533	39,822	2.7%
Full-time equivalent (FTE)	921,933	949,591	973,331	23,740	2.5
Proposition 98					
Amount per FTES	\$3,659	\$3,804	\$3,912	\$107	2.8%

- \$10 million to develop partnerships among neighboring community colleges, four-year universities, and K-12 schools, to support early reading development and teacher internships.
- \$10 million to expand the Partnership for Excellence Program. This program was enacted by the Legislature last year with an initial appropriation of \$100 million.

- \$4.3 million to expand two programs—transfer and articulation (\$2.5 million) and the Middle College High School program (\$1.8 million).

Figure 2	
Governor's Community College Budget Proposals Proposition 98 General Fund	
<i>(In Millions)</i>	
1998-99 (revised)	\$2,163.9
Enrollment Growth	
Apportionments	\$78.7
Selected categoricals	5.1
Subtotal	\$83.8
Cost-of-Living Increases	
Apportionments	\$59.0
Selected categoricals	3.8
Subtotal	\$62.9
Funding Adjustments	
Lease-payment debt service	\$20.5
Technical adjustments	-7.3
Subtotal	\$13.2
Program Expansion	
Partnership for Excellence	\$10.0
Transfer and articulation	2.5
Middle College High Schools	1.8
Subtotal	\$14.3
New Programs	
High school report cards	\$10.6
Reading development partnerships	10.0
Subtotal	\$20.6
Offsetting Adjustments	
Property tax growth	-\$75.2
1999-00 (proposed)	\$2,283.4^a
Change from 1998-99 (revised)	
Amount	\$119.5
Percent	5.5%
^a Total does not add due to rounding.	

Proposition 98 Spending by Major Program

Figure 3 (see next page) shows Proposition 98 spending for community college programs. "Apportionment" funding (available for the districts to spend on general purposes) accounts for \$3.1 billion in 1999-00, or about 82 percent of total Proposition 98 expenditures. The state General Fund supports about 51 percent of apportionment funding, and local property taxes provide the remaining 49 percent.

"Categorical" programs (expenditures earmarked for a specified purpose) are also shown in Figure 3. These programs support a wide range of activities from services to disabled students to maintenance/special repairs. For most categorical programs, spending in 1999-00 remains at the current-year level.

Enrollment Growth

We recommend that the Legislature amend current law to establish a new benchmark rate to guide the Legislature's enrollment growth decisions.

The Governor's budget proposes \$83.8 million for enrollment growth based on a FTES increase of 2.5 percent in 1999-00. Current law (Education Code Section 84750[g]) states that the statewide increase in FTES shall be, at a minimum, the rate of change in the adult population as determined by the Department of Finance (DOF). This code section further states that this factor may be increased through the budget process to reflect such factors as statewide priorities, the unemployment rate, and the number of students graduating from California high schools. While the DOF projects an increase in the adult population of 1.96 percent, the budget proposes an FTES workload increase of 2.5 percent.

The growth rate of the adult population does not, by itself, accurately reflect potential enrollment growth. The calculation should account for differences in population growth among each age cohort of adults, as well as changes in rates of participation in community colleges. We believe that the DOF's annual projection of community college enrollment growth, which incorporates these factors, would provide a better benchmark for funding enrollment growth. Therefore, we recommend that the Education Code (Section 84750 [g]) be amended to delete the reference to change in the adult population. We recommend that in its place this code section refer to DOF's annual enrollment projection as a benchmark to guide the Legislature's enrollment funding decisions. The Legislature can then evaluate proposals that differ from this benchmark on the individual merits of the proposals.

Figure 3**Major Community College Programs
Funded by Proposition 98***(In Millions)*

	Estimated 1998-99	Proposed 1999-00	Change From 1998-99
Apportionments			
State General Fund	\$1,539.3	\$1,597.7	\$58.5
Local property tax revenue	1,448.7	1,524.0	75.2
Subtotals	\$2,988.0	\$3,121.7	\$133.7
Categorical Programs			
Matriculation—credit/noncredit	\$63.9	\$66.7	\$2.8
Services for CalWORKs recipients	65.0	65.0	—
Disabled students	52.3	54.6	2.3
Extended opportunity and CARE	66.3	69.2	2.9
Economic development program	33.1	33.1	—
Basic skills	22.2	23.2	1.0
Apprenticeships/CalWORKs	15.1	15.1	—
Financial aid administration	7.2	6.9	-0.3
Fund for student success	10.8	10.8	—
Faculty and staff programs	9.6	9.6	—
Other programs	16.5	16.5	—
Telecommunications and technology	28.0	28.0	—
Instructional equipment/library materials replacement	44.0	44.0	—
Maintenance/special repairs	39.0	39.0	—
Lease-payment debt service	46.6	67.1	20.5
Base adjustments	3.0	—	-3.0
Subtotals	\$522.6	\$548.8	\$26.2
New or Augmented Programs			
Partnership for Excellence	\$100.0	\$110.0	\$10.0
Reading development partnerships	—	10.0	10.0
High school report cards	—	10.6	10.6
Transfer and faculty articulation	1.4	3.9	2.5
Middle college high schools	0.7	2.5	1.8
Subtotals	\$102.1	\$136.9	\$34.9
Totals^a	\$3,612.7	\$3,807.4	\$194.7

^a Totals may not add due to rounding.

If the Legislature were to make this change effective for the budget year, the new formula would generate enrollment growth of 2.7 percent. This is slightly higher than the budget proposal of 2.5 percent, thereby requiring an additional \$6.5 million.

Partnership for Excellence Program

We find that the California Community Colleges are on target to establish the accountability measures and adoption of goals for the new Partnership for Excellence Program. We recommend approval of the Governor's budget bill language that asks the Chancellor to consider recommendations to enhance measures and goals of the program.

Chapter 330, Statutes of 1998 (SB 1564, Schiff), established the Partnership for Excellence Program. The act required the CCCs to develop specific goals and outcome measures to improve student success and assess district performance. The act states that the goals must include at least the following areas: (1) student transfers, (2) degrees and certificates, (3) successful course completion, (4) work force development, and (5) basic skills improvement. The act expresses the state's intent to provide supplemental funding "to invest in program enhancements that will increase performance toward the community colleges' system outcome measures." The 1998-99 Budget Act appropriated \$100 million to the CCC for this purpose.

The budget proposes to continue the \$100 million in the budget year and augment that amount by \$10 million. Figure 4 (see next page) highlights the measures adopted by the CCC board at its November 1998 meeting with respect to the five goal areas. The CCC did not add any general goals beyond those identified in Chapter 330. The Chancellor's Office will report in April 1999 on how individual community colleges allocated their share of the \$100 million current-year appropriation with regard to these five goals.

Three Agency Review of CCC Proposal. Chapter 330 directs the DOF, the Legislative Analyst's Office (LAO), and the California Postsecondary Education Commission (CPEC) to assess whether the goals and accountability measures would clearly and reasonably meet the state's interest in accountability. Working together, the three agencies sent a letter to the CCC board and Chancellor in December that recommended the CCC enhance its accountability measures to:

- *Measure Transfer Readiness.* The community colleges propose specific goals for increasing the number of students who transfer from CCC to University of California (UC), California State Uni-

versity (CSU) and other baccalaureate institutions. Increasing the number of transfers is a laudable goal. The three agencies recommended that the CCCs also increase the number of students that the CCCs adequately *prepare* to transfer. This measure would insulate the colleges from enrollment decisions by baccalaureate institutions, career choices by students, and other factors over which the CCCs have little control.

- **Measure All Certificates Awarded.** The community colleges propose increasing the number of degrees and certificates awarded but would count only certificates of 18 or more units. The three agencies recommended that the CCCs measure all certificates they issue including those that require less than 18 units, so as to provide a comprehensive accounting of successful student outcomes.

Figure 4	
Partnership for Excellence	
Summary of Adopted Goals	
November 1998	
<input checked="" type="checkbox"/>	Transfer An increase from 69,574 to 92,500 in the number of students who transfer from community colleges to baccalaureate institutions.
<input checked="" type="checkbox"/>	Degrees and Certificates An increase from 80,799 to 110,500 in the number of degrees and certificates awarded. (Only certificates of 18 units or more would be included.)
<input checked="" type="checkbox"/>	Successful Course Completion An increase from 68.1 percent to 70.6 percent in the overall rate of successful course completions.
<input checked="" type="checkbox"/>	Workforce Development An increase in the number of successfully completed apprenticeship courses and advanced-level and introductory vocational courses. An increase in the number of California businesses and employees benefitting from training through contract education and in the number of individuals receiving fee-based job training.
<input checked="" type="checkbox"/>	Basic Skills Improvement An increase from 108,566 to 150,754 in the number of students completing course work at least one level above their prior basic skills enrollment.

- **Measure Successful Course Retention.** The community colleges propose increasing the rate of successful course completion (courses completed with a grade of "C" or better). The three agencies recommended that the CCCs also measure the rate at which the CCCs retain students in the learning process through completion of courses, regardless of the achievement level of the students. Measures of both successful course completion and course retention would give a more complete view of student success. The group also acknowledged that they shared the concern expressed by the community colleges concerning "successful course completion" and the potential for grade inflation. The group offered to work with the community colleges to develop a means of assessing the degree to which grade inflation may be a future concern.
- **Measure Certificate Completions.** The community colleges propose increasing the number of successfully completed apprenticeship, and advanced-level and introductory vocational courses. They also propose increasing the number of businesses and employees benefitting from contract education and fee-based training. The three agencies recommended that the CCCs also measure the number of certificates they issue for completion of vocational and occupational programs, rather than simply the number of courses completed. The agencies also recommended that counts of businesses served differentiate between small and large employers, because the state might wish to craft training policies based on business size.

The budget bill includes a provision directing the Chancellor to consider the recommendations of the three agencies, and to submit a final plan by September 1, 1999 that includes:

- A final list of performance measures and the rationale for each.
- Systemwide goals for each measure that the CCCs commit to reach each year through 2005, and the rationale for each goal.
- The baseline level of performance for each measure in each of the last three fiscal years (1995-96, 1996-97, and 1997-98).
- A procedure developed in consultation with DOF, CPEC and the LAO, for delivering the annual systemwide and district-specific accountability reports due on April 15, 2000. These reports will allow the Legislature to determine how well the CCCs are meeting the goals of the Partnership for Excellence.

In light of the importance of developing comprehensive performance measures for the Partnership for Excellence, we recommend approval of the budget bill provision.

Partnership for Excellence Augmentation

We recommend that the Legislature delete \$8.2 million of the \$10 million increase proposed for the Partnership for Excellence Program, because the program needs only \$1.8 million to keep pace with inflation. (Decrease Item 6870-101-0001 by \$8.2 million.)

Last year the Legislature provided an initial investment of \$100 million for the Partnership for Excellence Program. The Governor's budget proposes to increase the program by \$10 million to demonstrate the Governor's support of this effort.

Basing Funding on Need. The Partnership for Excellence Program is in its first year of operation. The budget request offers no justification for an additional \$10 million for the program. We believe that increases in this program should be contingent upon the community colleges articulating rigorous goals and improving student outcomes. The community colleges have yet to do this. Further, the budget provides no analytical justification for increasing base program funding (\$100 million) by \$10 million. Consequently, the segment has not justified a general augmentation.

It is, however, reasonable to adjust the base amount to reflect general price increases, thereby maintaining comparable purchasing power between the current and budget year. Accordingly, we recommend that the Legislature increase this program by \$1.8 million to account for a 1.83 percent COLA. This is \$8.2 million less than proposed in the budget.

Use Partnership for Excellence Funds To Support Transfer Proposal

We recommend that the Legislature delete the request for \$2.5 million to improve the transferability of community college courses to four-year colleges, because the community colleges should do this within the Partnership for Excellence Program. (Reduce Item 6870-101-0001 by \$2.5 million.)

The Governor's budget proposes an increase of \$2.5 million to enhance the transferability of community college courses to CSU, UC and other four-year colleges. The community colleges propose to spend (1) \$550,000 on workshops to assist faculty in rendering and developing curricula that is transferable and (2) \$1.9 million clarifying general education requirements and certification processes. The budget indicates that the expendi-

tures would be for limited terms; the articulation workshops would be funded for six years (through 2004-05), while the general education reviews would be funded for two years (through 2000-01). The current-year budget continues to provide \$1.4 million in support of other transfer activities including, Project Assist (\$589,000) and the California Articulation Number system (\$835,000).

Activities Should Be Funded With Partnership for Excellence Funds. We agree that the community colleges should improve articulation with four-year colleges. (Articulation refers to the process community colleges use to ensure that courses completed at one institution will be equivalent in nature to other courses available at four-year institutions.) Without such articulation, students would not be assured that courses they take would be counted toward their degree upon transferring to another college. Without appropriate articulation, students often must repeat courses and extend the time to obtain their degrees.

The CCC has identified improved articulation as a key factor in achieving the transfer goals of the Partnership for Excellence Program. As we discussed earlier, the Partnership for Excellence Program received \$100 million in the 1998-99 Budget Act. If the community colleges believe that the proposed transfer-improvement activities would be cost-effective in reaching their collectively determined transfer goals, then they should allocate \$2.5 million of the \$100 million provided by the Legislature for those activities. Accordingly, we recommend that the augmentation request be denied.

Value of Report Card to High Schools Not Established

We recommend the Legislature delete \$10.6 million for a proposed Community College High School Report Card program because the likely benefits of the program do not justify its cost. (Reduce Item 6870-101-0001 by \$10.6 million.)

The Governor's budget requests \$10.6 million from Proposition 98 to fund the Governor's Community College Report Card initiative. According to the 1999-00 Budget Bill (Item 6870-101-0001, Provision 16), the \$10.6 million would be used by the community colleges to both:

- Improve data collection and feedback to all high schools in each college's service area on the readiness of entering first time college students who graduated from those schools.
- Provide information on incoming students to facilitate early college success.

Proposed budget bill language requires that the Community College Chancellor, in consultation with specified agencies and groups, develop report cards for high schools on the performance of their graduates at the community colleges. The language requires the Community College Board of Governors to submit the plan to the Office of the Secretary of Education for approval by October 1, 1999. Upon approval by the Secretary of Education, the Chancellor shall implement the program. The *Governor's Budget Summary* states that grants for this program will be available to all 106 colleges, at an average of \$100,000 per college.

Value of Proposed Report Card Questionable. The UC and CSU currently publish data on student performance and identify the high schools from which their students graduated. The *Master Plan for Higher Education* directs UC to draw from the top eighth of all high school graduates. It directs CSU to draw from the top third. Thus, the UC and CSU reports let high schools know how their graduates are performing in the pool of top high school graduates.

Unlike CSU and UC, the community colleges must admit all applicants, regardless of how well they performed in high school, or how well they are prepared for college. As a consequence, it is not always appropriate to compare high schools based on how their graduates perform in community colleges. For example, some high schools might be sending their top graduates to community colleges, while others might be sending lower-achieving graduates.

Furthermore, no evidence has been provided to the Legislature that describes how this program will benefit either high schools or community colleges. Consequently, annual expenditure of \$10.6 million has not been justified.

Accordingly, we recommend that the \$10.6 million request and related budget bill language be deleted.

Teacher and Reading Development Proposal Lacks Important Detail

We recommend the Legislature delete \$10 million for the Community College Teacher and Reading Development Partnership program, because the proposal has not been adequately developed. (Reduce Item 6870-101-0001 by \$10 million.)

The Governor's budget proposes \$10 million from Proposition 98 for the Governor's Community College Teacher and Reading Development

Partnership grants initiative. According to the *1999-00 Budget Bill* (Item 6870-101-0001, Provision 15), the purpose of this new program is to:

- Encourage promising community college students to pursue a career in teaching through development of an articulated internship program with local school districts and California State University institutions.
- Assist elementary students to develop improved reading skills.

Budget bill language requires the Community College Chancellor—in consultation with specified agencies and groups—to develop a plan and criteria for awarding program funds through a competitive process to community colleges. The plan would prescribe how programs receiving grants should coordinate with other segments, set stipend levels for participating students, and evaluate program performance. The budget bill language requires the Community College Board of Governors to submit the Chancellor’s plan to the Office of the Secretary of Education for approval by October 1, 1999. Upon approval by the Secretary of Education, the Chancellor shall implement the program. The *Governor’s Budget Summary* states that while this program may not be feasible in all areas of the state, \$10 million provides sufficient funding to structure beneficial programs in the most needy communities to attract future teachers to those areas.

The Proposal Raises Unanswered Questions. The proposal to use community college students to help teach reading to K-12 students is appealing in theory. Such a program might, as the Governor suggests, encourage community college students to pursue teaching careers and improve reading among K-12 students. From a practical standpoint, however, the proposal fails to address some very important questions.

- How would CCC students be screened to ensure that participants are adequately prepared and motivated?
- What type of preparation would the community colleges provide to ensure that the college students will gain the skills needed to tutor younger students and thus obtain a positive experience in the classroom?
- How would the program ensure that tutors would not require more time of teachers for supervision than they provide in quality instructional assistance?

Funding Request Is Premature. The budget bill language provides no time prior to enactment of the *1999-00 Budget Bill* for the Legislature to

review a developed proposal that addresses these and other questions. The Chancellor's proposal, due to the Legislature on October 1, 1999 may satisfactorily answer each of the questions, but it would be premature to provide \$10 million for a program before even basic details are available. Accordingly, we recommend that the \$10 million request be denied.

Effectiveness of Middle College High School Program Unsupported

We recommend the Legislature delete \$1.8 million requested to increase course offerings to high school students in community colleges because there is no information on the effectiveness of this program. We further withhold recommendation on the base funding amount of \$660,000 pending additional information. (Reduce Item 6870-101-0001 by \$1.8 million.)

The Middle College High School Program is a joint K-12 and CCC effort to promote the high school graduation and college enrollment of high-risk high school students. In the program, community college faculty teach high school courses to these students on the college campus. The community colleges currently allocate \$660,000 per year from Proposition 98 funds for the program at several sites. The Governor's budget proposes adding \$1.8 million to the program, a 173 percent increase over current-year expenditures. The community colleges provide districts with "seed" money to institute middle college programs over a three-year period. The community colleges expect districts to "institutionalize" projects by the fourth year—that is, they are expected to continue the programs out of their own budgets.

We requested both fiscal and academic effectiveness data on this program from the Department of Finance, the Chancellor's Office, and the Secretary of Education. The only information that they were able to provide was a 1990 evaluation of the initial two projects. The 1990 evaluation states "the outcome findings...while admittedly preliminary and incomplete, nevertheless indicate that the California Middle College High Schools are making a positive difference with their at-risk students." There is, however, no data substantiating this claim.

Thus, the Legislature has no real information on the effectiveness of this program in increasing the rate of college participation among at-risk high school students. It is also not known whether the community college campuses are continuing programs after their seed funding stops. Accordingly, we recommend that the request for \$1.8 million to increase the program be denied. We also withhold recommendation on the base fund-

ing amount of \$660,000 pending receipt of further information about the program's effectiveness.

Economic Development Program Recommendations

We recommend that the Legislature direct the California Community Colleges Chancellor to (1) end its current contract for an evaluation and follow-up work on the Economic Development Program and (2) expeditiously begin a new contract study to be submitted to the Governor and Legislature by March 1, 2000. We further recommend that the Legislature extend the sunset date for this program by one year to June 30, 2000, to allow time for the new study to be completed and reviewed.

Chapter 805, Statutes of 1994 (AB 3512, Polanco), reauthorized an existing CCC program and changed its name to the CCC Economic Development Program. The act states that the mission of the CCC Economic Development Program is to:

- Advance California's economic growth and global competitiveness through quality education and services focusing on continuous work force improvement, technology deployment, and business development.
- Coordinate a community college response to meet statewide work force needs that attracts, retains, and expands businesses.
- Develop innovative solutions, as needed, in identified strategic priority areas, including, but not limited to, advanced transportation technologies, biotechnologies, small business applications, applied competitive technologies (including computer integrated manufacturing, production, and continuous quality improvement), environmental technologies, health care delivery, international trade, and work place literacy.
- Identify, acquire, and leverage resources to support local, regional, and statewide economic development.
- Create logistical, technical, and marketing infrastructure support for economic development activities within the CCC.
- Optimize access to community colleges' economic development services.
- Develop strategic public and private sector partnerships.
- Assist communities experiencing military base downsizing and closures.

The Governor's budget proposes to fund the program 1999-00 at \$33.1 million—the same amount as in the current-year budget. The program has grown from \$9.4 million in 1996-97.

Chapter 299, Statutes of 1997 (AB 1578, Midgen), set a sunset date of June 30, 1999 for the program. The act further directed the Board of Governors to review the program by September 1, 1998 to determine whether the operation of the program should be extended beyond the sunset date. Chapter 299 further directed the Legislative Analyst, in conjunction with the Bureau of State Audits, to review the effectiveness of the program, with specific attention to the findings of the review conducted by the CCC board. The act directs the Legislative Analyst to submit its review in February 1999 as part of the *Analysis of the 1999-00 Budget Bill*. This analysis responds to the Chapter 299 directive.

Board's Contracted Evaluation Yields Little Useful Information. The CCC board contracted for an independent evaluation of the program in June of 1998. The contract amount was \$429,720. The major elements of this contract called for (1) an evaluation of the first four years of operation of the Economic Development Program, (2) a report on the program's performance in 1997-98, and (3) development of revised/new data collection forms for the Economic Development Program. As of mid-January, the contract had received payment of about half of the total amount.

The contractor submitted the four-year evaluation to the CCC in November 1998. Our review of this four-year evaluation found that it lacked data that would be useful to assess the effectiveness of the program. The contractor did not provide even the most basic information on program outcomes and effectiveness. Furthermore, in collecting information for its report, the contractor used faulty survey methods.

After consulting with other state agencies and the current contractor, we conclude that the contractor does not have the expertise to provide a useful evaluation of this program. Accordingly, we recommend that the Legislature direct the CCC Chancellor's Office to end the current contract.

New Evaluation Needed. Because the current evaluation has not produced useful data and because the Legislature will need to know the effectiveness of the program to determine whether to extend it, we recommend that the CCC engage a new contractor for an evaluation. We recommend that staff from four agencies—the Chancellor's Office, Secretary of Education, DOF, and LAO—review and approve the request for proposal. This would better assure that the study would produce useful information.

Extend Program for One Year. Even though this program is in its fifth year of operation, the Legislature has not been provided any data on program performance and outcomes nor with data that links expenditures to program performance. However, because additional time will be needed to conduct a new evaluation of this program, we recommend that the sunset date for this program be extended to June 30, 2000. This will allow time for a CCC contractor to complete a meaningful evaluation for legislative consideration.



STUDENT AID COMMISSION (7980)

The Student Aid Commission provides financial aid to students through a variety of grant, loan, and work-study programs. The commission's proposed 1999-00 budget includes state and federal funds totaling \$689 million. This is \$34.9 million, or 5.3 percent, more than estimated expenditures in the current year. The commission receives about \$390 million, or 57 percent, of its funding from the federal government.

The budget requests \$386 million from the General Fund for the commission. This is \$34.3 million, or 9.7 percent, more than estimated expenditures in the current year. Of the total General Fund amount, 98 percent is for direct student aid for higher education. The balance is for the cost of operating the commission.

Major General Fund Budget Changes

Figure 1 shows the major changes proposed for the commission's budget in 1999-00. As Figure 1 shows, the budget requests a General Fund increase of \$34.3 million. The major factor driving this change is the out-year costs (\$30 million) associated with increases in the number and amount of Cal Grant A awards provided in the previous three years. The Governor's budget also includes \$5 million to provide 1,672 additional first-time Cal Grant A (836) and Cal Grant B (836) awards in 1999-00. The annual cost of this augmentation would increase to about \$15 million by 2002-03 because each year the additional first-time awards will be given to new students, while awards to prior recipients are renewed.

The Cal Grant Program

The Cal Grant program consists of four parts. Figure 2 (see page 146) summarizes the purpose, eligibility requirements, and awards for the Cal

Grant A, Cal Grant B, and Cal Grant C programs. We discuss the newly implemented Cal Grant T program below.

Figure 1	
Major General Fund Changes In Student Aid Commission	
<i>(In Thousands)</i>	
1998-99 General Fund Budget	\$352,068
Costs of prior grant increases	\$30,139
Add 1,672 new Cal Grants	5,000
Add two research staff	200
Relocate offices	162
Added grant-processing costs	133
Technical and other adjustments	-1,337
Proposed 1999-00 Budget	\$386,365
General Fund increase	\$34,297
Percent increase	9.7%

Figure 3 (see page 147) shows—for selected past years—how the Cal Grant’s program activities compared to the program’s statutory goals. It indicates, for example, that the budget would support about 50,000 first-time Cal Grant A awards in 1999-00, which would meet 70 percent of the statutory goal of providing Cal Grants to one-fourth of California high school graduates. (In most years, the statutory goal represents roughly one-half of graduates that go immediately to college.)

In an effort to increase the supply of credentialed teachers in the state, Chapter 336, Statutes of 1998 (SB 2064, O’Connell), created the Cal Grant T program, which provides one-year grants for tuition in accredited teacher-training programs. The act specified that the eligibility for Cal Grant T awards shall be based on academic criteria similar to that used in the Cal Grant A program. The award levels for the Cal Grant T program are the same as those shown for the Cal Grant A program in Figure 2.

Figure 2		
Description of Cal Grant Programs		
<i>1999-00</i>		
Cal Grant A	Cal Grant B	Cal Grant C
Choice—based on financial need and academic performance	Access—based primarily on financial need, preference for initial attendance at community college	Vocational—based on financial need
Eligibility		
Income ceiling: \$63,500 for dependent student with five family members	Income ceiling: \$35,915 for dependent student with five or more family members	Income ceiling: Same as Cal Grant A
Asset ceiling: \$42,000	Asset ceiling: \$42,000	Asset ceiling: \$42,000
Freshman and juniors (transferring from a community college to a 4-year school grade point average (GPA) cut-off: 3.15 (1998-99))	Applicants ranked based on family income, family size, GPA, family education background, and marital status of parents	Applicants ranked based on work experience, educational performance, and recommendations
Sophomores and juniors (nontransfers) GPA cut-off: 3.38 (1998-99)		
Plan to enroll at least two years at UC, CSU, or nonpublic institution	Plan to enroll at least one year at a college	Plan to enroll at least four months at community college, independent college, or vocational school
Average Family Income of New Recipients (1998-99)		
\$33,592	\$13,818	\$26,411
Maximum Award		
Tuition and fees: Nonpublic: \$9,036 UC: \$3,609 CSU: \$1,506	Tuition and fees: No award in the first year, then same as Cal Grant A	Tuition and fees: Nonpublic: \$2,360 UC: \$2,360 CSU: \$1,506
Other costs: none	Other costs: Up to \$1,410	Other costs: Up to \$530
Number of New Awards Annually		
21,788	21,788	2,089
Proposed Budget (In Millions)		
\$257.7	\$103.1	\$3.9
Number of Current Recipients		
60,893	54,122	3,775

Figure 3			
Cal Grants—Statutory Goals Compared to Actual Awards			
<i>Selected Years</i>			
	1978-79	1988-89	1999-00 Proposed
Goal: Number of Awards			
25 percent of high school graduates	69,637	67,264	72,420
Actual number of new awards	23,062	29,270	50,337 ^a
Percent of goal	33%	44%	70%
Goal: Cover UC and CSU Fees^b (For Financially Needy Students)			
University of California			
Weighted average tuition and fees	\$720	\$1,554	\$4,034
Maximum award	675	1,080	3,609
Percent of goal	94%	69%	89%
California State University			
Weighted average tuition and fees	\$212	\$815	\$1,872
Maximum award	203	324	1,506
Percent of goal	96%	40%	80%
Goal: Support Private Institution Recipients at Level of Public Institution Funding			
Specified costs and fees at public institutions	N/A	N/A	\$9,852
Maximum award (Student Aid Commission estimate)	\$2,700	\$4,370	\$9,036
Percent of goal	N/A	N/A	92%
^a 47,337 for Cal Grant A,"B," and "C" plus 3,000 for Cal Grant T awards.			
^b Cal Grant A and "B."			

The Cal Grant T Program Should Be Expanded

We recommend increasing General Fund support for the Cal Grant T program by \$2.5 million, because the program successfully assists students in obtaining teacher training.

Program Off to a Fast and Successful Start. The 1998-99 Budget Act appropriated \$10 million to fund up to 3,000 awards in the current year. In just the first seven weeks of the program (that is by an October 1998 initial application deadline), the commission received over 6,000 applications for grants. For the current year, the commission awarded a total of 2,044 grants totaling \$9.4 million to students attending California State University (CSU) (1,046), University of California (UC) (227), and inde-

pendent colleges (771). Of the 2,044 recipients, 2,018 were independent of their parents and had average annual incomes of under \$15,000. Families of the 26 dependent recipients had annual incomes averaging \$31,000. The average age of recipients was 30 years.

Augment Cal Grant T. The Governor's budget proposes to continue funding for the Cal Grant T program at its current level of \$10 million. In our analysis of the Governor's K-12 initiatives on teacher quality, we recommend that the Legislature redirect \$2.5 million to the Cal Grant T program from proposals that less directly affect the supply of new teachers. Specifically, we recommend that the Legislature:

- ***Shift \$1.5 Million From the Commission on Teacher Credentialing.*** The Governor requests \$1.5 million to "backfill" for the revenue loss from a proposed waiver of the \$60 teacher credential fee for new teachers. This is because it is unlikely that prospective teachers, after investing considerable time and money in the completion of teacher-preparation courses, would decide not to teach because of the \$60 fee for obtaining their credential. While the goal of encouraging more people to enter the teaching profession is important, it is unlikely that the credential fee waiver would result in more credentialed teachers. If applied to the Cal Grant T program, the \$1.5 million would provide about 325 additional grants each year to prospective teachers.
- ***Shift \$1 Million from Proposed Programs at the UC.*** The Governor's budget requests \$500,000 in the University of California's budget to plan programs to prepare 400 students for teaching credentials and education masters degrees. The budget requests another \$500,000 for UC to plan programs to assist 400 credentialed teachers in becoming school principals. However, we believe the state can better use its resources by using the proposed \$1 million instead for Cal Grant T scholarships. Additional scholarships would allow prospective teachers to choose among public or private accredited teacher-training programs that best meet their individual needs.

Therefore, we recommend deleting \$1 million for the planning of these programs. We recommend using the \$1 million instead to expand the Cal Grant T program. This would provide an additional 220 prospective teachers with teacher preparation scholarships.

Accordingly, we recommend that funding for the Cal Grant T program be increased from \$10 million to \$12.5 million.

In addition, the previous two budget acts appropriated a total of \$13.8 million to the CSU to increase enrollments in teacher-preparation courses by 2,702 students. The Governor's budget proposes to continue funding for these additional enrollments. In our analysis of the CSU budget, we note that CSU cannot document that it is indeed training these additional students. We recommend that if CSU cannot provide evidence at budget hearings that it is training them, that the Legislature consider shifting the \$13.8 million to the Cal Grant T program.

Financial Need Formulas Should Include Federal Tax Credits for Tuition

We recommend the Legislature adopt supplemental report language that directs the Student Aid Commission, in consultation with the California Community Colleges, California State University, and University of California, to develop a methodology to include the availability of federal tax credits in calculations of student financial need.

When financial aid officers on community college, CSU, and UC campuses assemble financial aid packages for their students, they calculate the financial resources available to each financial aid applicant. Such resources include a student's personal and his or her family's income (for dependent students) and grant aid already received from other sources (for example, federal Pell grants and state Cal Grants). The campuses frequently augment federal and state grants with campus-based aid, depending on a student's unmet financial need. Under current law, the segments have broad discretion in calculating financial resources and unmet need of financial aid applicants.

Federal Tuition Tax Credits Provide Financial Aid. The federal *Taxpayer Relief Act of 1997* created the Hope Scholarship and Lifetime Learning Credit programs. (Please see our February 1998 report *Taking Advantage of New Federal Higher Education Tax Credits* for a detailed description of these programs.) These programs provide certain taxpayers annual income tax credits for up to \$1,500 of college tuition and fee expenses. To be eligible for a tax credit, independent students, or families of dependent students, must not have adjusted annual gross income of more than \$50,000 (for single tax returns) or \$100,000 (for joint tax returns). Lower-income taxpayers without a tax liability cannot receive any tax credit. The credits are intended to help middle- and upper-middle income taxpayers with college expenses.

Financial Need Calculations Should Account for Tax Credits. According to the segments, financial aid officers do *not* include the availability

of tax credits when calculating students' financial resources. As a result, some students are receiving some financial aid from the state when they could obtain that aid from the federal government in the form of income tax credits. In its December 1998 report, *Federal Tuition Tax Credits and State Higher Education Policy: A Guide for State Policy Makers*, the National Center for Public Policy and Higher Education recommended that states include the federal tax credits in calculations of financial resources and need for financial aid. As the report states "low income students could benefit from the portion of state financial aid that would otherwise be awarded to those higher income students now served by the new federal tax credits." We agree.

Section 69506.5 of the Education Code authorizes the commission to modify the methodology financial aid officers use to calculate students' financial need. Accordingly, we recommend that the Legislature adopt supplemental report language that directs the Student Aid Commission in consultation with the community college, CSU, and UC financial aid officers, to develop a financial aid process that includes the availability of federal tax credits as income when calculating students' financial needs. We recommend that the language also require the commission to report to the Legislature by August 31, 1999 on how this change will be implemented in the financial aid process.



FINDINGS AND RECOMMENDATIONS

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CROSSCUTTING ISSUES

1. **New Federal Funding.** We recommend the Secretary of Education, Superintendent of Public Instruction, the University of California, the California State University, and the California Student Aid Commission report to the Legislature at budget hearings on efforts they are taking to apply for federal grant programs. E-11

K-12 EDUCATION

K-12 Priorities

2. **Proposition 98 Spending. Increase Estimate of Minimum Guarantee for 1999-00 by \$111 Million.** Recommend the Legislature increase its estimate of the Proposition 98 minimum guarantee for K-14 education by \$111 million over the Governor's budget, due to upward revision of per-capita personal income growth. E-24
3. **School District Block Grants/ Teacher Recruitment/Retention Bonuses. Provide \$91 Million of Ongoing Proposition 98 Funds and \$39 Million of One-time Funds.** Recommend the Legislature place the following Proposition 98 funds into school district block grants, in order to maximize local spending discretion: \$91 million of ongoing funds and \$39 million of one-time funds. As one potential use of the block grants, recommend the Legislature authorize school districts to make one-time bonus payments to teachers at schools that face severe challenges in recruiting and retaining credentialed teachers. E-26
4. **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 result in more accurate estimates of annual inflation. E-27

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Revenue Limits	
5. Deficit Factor Buy-Out. Recommend approval of \$200 million for revenue limit deficit factor buy-out as a means of increasing general purpose funding for school districts and county offices of education.	E-29
6. Adjust Revenue Limit Deficit Factor. Recommend the Legislature adopt trailer bill language to adjust school district and county office of education base revenue limits and the deficit factor to more accurately reflect the adjustments provided to revenue limits over time.	E-30
The Governor's Reading Initiatives	
7. Create a New Consolidated Item for Improving Academic Skills. Recommend creating a new "Improving Academic Skills Item" to incorporate five existing supplemental instruction programs as well as the Governor's proposed Elementary School Intensive Reading Program and English Language Learner Supplemental Instruction Program.	E-40
8. English Language Development Test (ELD). Recommend the State Department of Education provide a full report on progress towards developing the ELD test. Pending this report, withhold recommendation on \$14 million to administer the test.	E-43
9. Proposition 227. Recommend the Legislature enact legislation to broaden the permissible uses of the \$50 million annually appropriated by Proposition 227, in order to further the purpose of the proposition to help public school children learn English as rapidly and effectively as possible.	E-44
10. Classroom and School Library Funds. Recommend the Legislature limit ongoing library funding to \$83 million and that the remainder of funds proposed for this purpose be converted from ongoing to one-time funds.	E-46
Teacher Quality	
11. Reading Professional Development Institutes. Recommend deleting \$12 million (\$6 million to the University of California and \$6 million of Proposition 98 funds) for Reading Professional Development Institutes because this type of training can be provided through existing programs and because the proposal is too narrowly drawn to fully meet school staff development needs. Recommend providing these funds instead to school districts for staff development priorities they identify.	E-56
12. Governor's Teacher Scholars and Principal Leadership Institutes. Recommend deleting \$1 million for the University of California to plan and develop the Governor's Teacher Scholars and Principal Leadership Institutes because the proposal limits the ability of prospective participants to choose	E-57

	Analysis Page
programs that best fit their needs. Recommend providing these funds instead to increase Cal Grant T scholarships for teacher preparation.	
13. Teacher Peer Review and Assistance Program. Recommend (a) the Legislature make school district participation in the proposed teacher peer review and assistance program voluntary and (b) reject the proposal to eliminate the mentor teacher program. Instead, recommend combining funds for the existing Beginning Teacher Support and Assessment program with the existing mentor teacher program and the funding for the teacher peer review assistance, to allow increased local district flexibility (a combined funding total of \$172 million).	E-58
14. Paraprofessional Training Program. Recommend approving \$6.6 million proposed augmentation from Proposition 98 funds. Recommend deleting \$3.4 million augmentation in federal Goals 2000 funding for this program because our recommended level of funding allows adequate expansion.	E-60
15. Teacher Credential Fee Waiver. Recommend deleting \$1.5 million to “backfill” revenue loss from a proposed waiver of the \$60 teacher credential fee for new teachers because the waiver would have little to no effect on teacher supply. Recommend using the \$1.5 million instead to fund additional Cal Grant T awards as a more effective means to increase supply of teachers.	E-61
16. Staff Development Block Grant. Recommend providing \$53.9 million to school districts for staff development training to address immediate teacher quality needs (\$22 million from the General Fund [Proposition 98] and \$31.9 million from federal Goals 2000 funds).	E-62

Commission on Teacher Credentialing (CTC)

17. Reject Requests for Additional Permanent Positions. Recommend Legislature deny requests for \$449,000 for eight new permanent positions and conversion of 6.5 limited-term positions to permanent status until a comprehensive study of CTC’s operations is completed and reviewed.	E-64
18. Contract for Comprehensive Study. Recommend Legislature approve from the Teacher Credentials Fund \$250,000 for a comprehensive study of CTC’s organizational structure and credentialing processing protocols.	E-64
19. Deny Information Technology Requests. Withhold recommendation on CTC’s request for \$438,000 to replace and expand its information technology infrastructure, pending receipt and review of CTC’s information technology plan.	E-66

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Governor’s Accountability Proposal	
20. Governor’s Performance Awards. Recommend the Legislature approve the proposed funding for the awards in 2000-01. This would make available (on a one-time basis) an additional \$150 million for schools in the upcoming school year without any practical delay in the first payments of the awards.	E-68
21. Hold Districts Accountable for School Performance. Recommend the Legislature make school districts the state’s point of contact in the proposed High Achieving/Improving Schools Program.	E-69
22. Authorize Districts to Give Bonuses as Part of Performance Awards. Recommend the Legislature amend SB 1x to authorize school districts to use Governor’s performance awards to grant bonuses to school staff, in order to give districts an additional “tool” for rewarding the people responsible for improved school performance.	E-70
23. Immediate Intervention Program—Modify Funding Mechanism. Recommend the Legislature increase the implementation grants to \$175 per student, and that the funding be a lump-sum that schools could use over the two years of the program.	E-72
24. Immediate Intervention Program—School Participation Should Be Voluntary. Recommend the Legislature revise the program to make it strictly voluntary.	E-73
25. Districts Should Intervene First; State Intervention Should Be Last Resort. Recommend the Legislature require school districts to intervene in educationally deficient schools. Only if district intervention fails should states intervene. In that circumstance, recommend the Legislature grant State Superintendent more professional discretion than proposed by Governor.	E-74
26. Policy Issues on High School Exit Exams. Recommend that the Secretary for Education report to the Legislature at hearings on SB 2x on important design issues for the High School Exit Exam.	E-77
27. Provide SDE With More Choices in Designing the High School Exit Exam. Recommend the Legislature authorize SDE to contract out for the design of the exam to any vendor instead of requiring design by a local education agency.	E-79
Child Development	
28. Governor’s Proposal for California Work Opportunity and Responsibility to Kids (CalWORKs) Child Care. Recommend the Legislature	E-83

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| reject the Governor's proposal to cut off child care to former CalWORKs recipients who have been unable to secure subsidized child care outside of the CalWORKs program. Instead, we recommend allowing former recipients to continue to receive child care under the CalWORKs Stage III "set aside" if certain conditions are met. | |
| 29. Family Fee Schedule Reform. Recommend the State Department of Education (SDE) forward the draft report proposing a new family fee schedule for subsidized child care services to the Legislature so that public hearings can be held on its recommendations. | E-86 |
| 30. Lack of Policy Relevant Data. Recommend SDE report during budget hearings on its time line for development of the child care data collection and analysis system for which the Legislature authorized \$20 million in the 1997-98 <i>Budget Act</i> . | E-87 |

Other Issues

Matrix Testing

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| 31. Matrix Test Design. Recommend the State Department of Education report to the Legislature at budget hearings whether (a) the matrix test will be ready for statewide student testing by spring 2000 and (b) the matrix test should incorporate student responses from the Standardized Testing and Reporting (STAR) test (in order to reduce matrix test costs). Pending receipt and review of this information, withhold recommendation on \$32.2 million requested in the budget for development and administration of the matrix test. | E-89 |
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California School Information Services

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| 32. California School Information System (CSIS). Recommend the State Department of Education (SDE) report prior to subcommittee hearings on the results of a formal risk assessment for CSIS. Recommend SDE also present the Legislature with a timeline and cost estimate to contract with an external evaluator to conduct a technical evaluation of CSIS, and develop a mitigation plan for high-risk areas. Pending SDE's response, we withhold recommendation on the \$6 million budget request for CSIS. | E-93 |
| 33. Does SDE Have Adequate Staff Resources? Recommend the State Department of Education (SDE) report to the Legislature at budget hearings on resources that the department is dedicating to the California School Information Services Program development. | E-95 |

Deferred Maintenance

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| 34. Deferred Maintenance. Add New Item 6110-181-0001 and \$115 Million (Proposition 98). Recommend the Legislature restore | E-95 |
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\$115 million for deferred maintenance deleted by the Governor’s budget proposal, so that the massive backlog of deferred maintenance of school facilities can continue to be addressed.

K-12 Education for Adults in Correctional Facilities

- 35. **Place Funding for Inmate Education Program on Current Basis. Increase one-time Proposition 98 Expenditure by \$15 Million.** Recommend the Legislature (a) approve \$15 million of one-time Proposition 98 monies to reimburse local education agencies for inmate education costs in 1998-99 and (b) redesignate the \$16.3 million in Item 6110-158-0001 for 1999-00 program costs, to give the Legislature more control over program costs and funding levels. Recommend conforming budget bill and statutory language changes. E-97

Charter Schools

- 36. **Charter School Grants.** Recommend that the Legislature direct the State Department of Education (SDE) to petition the federal government to increase the maximum amount of federal charter school implementation grants from \$150,000 per school to \$250,000. E-98
- 37. **Charter School Finance.** Recommend that SDE report to the Legislature prior to budget hearings on the status of the implementation of the new charter school direct funding mechanism, potential additional costs to the state and options to minimize those costs. E-99

**Moorpark Unified School District
Voluntary Desegregation Program**

- 38. **Moorpark Unified School District Voluntary Desegregation Program.** We recommend that the Legislature reduce the reimbursement for Moorpark Unified School District’s 1998-99 desegregation claim by \$380,000 and its 1999-00 claim by \$750,000, to exclude costs that are not reimbursable under existing law. E-100

HIGHER EDUCATION

University of California (UC)

- 39. **The UC Budget Detail to Be Available in Spring.** Withhold recommendation on the proposed changes to UC’s budget, pending receipt of a complete spending plan. E-115

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40. Evaluation of Outreach Programs. Recommend deleting \$1.5 million requested to evaluate outreach programs because UC received \$1.5 million in the current year.	E-115
41. Progress on Tenth Campus. Recommend UC report at budget hearings on expenditures, progress, and plans for the proposed tenth campus.	E-116
42. Reading Development Institutes. Recommend shifting \$12 million requested for planning and implementing reading institutes for K-12 teachers to school districts for staff development priorities they identify.	E-117
43. Teacher Scholars and Principal Leadership Institutes. Recommend shift of \$1 million requested for teacher and principal training programs to provide additional Cal Grant T awards to prospective new teachers.	E-118

California State University

44. Overall California State University (CSU) Budget. Withhold recommendation on the proposed changes to CSU's budget, pending receipt of a complete spending plan.	E-122
45. Amend Budget Bill Language on One-Time Carryover Funds. Recommend that the Legislature amend budget bill language to exempt planned expenditures for deferred maintenance and instructional equipment replacement from a general \$15 million cap on funds CSU carries over from 1998-99 Budget Act appropriations.	E-122
46. Verification of Increased Teacher Preparation Enrollments Needed. Recommend that CSU report at budget hearings regarding its progress toward meeting the 2,702 full-time equivalent enrollment growth in teacher preparation programs funded in the last two years. In addition, CSU should report on its methods for tracking teacher training enrollments and expenditures and whether these are reliable. If CSU is unable to document this enrollment growth, we recommend permanently shifting \$13.8 million from CSU's base budget to the Cal Grant T Program to increase the number of Cal Grant T awards.	E-125

California Community Colleges

47. New Benchmark for Enrollment Growth. Recommend funding for enrollment growth be based on the Department of Finance's enrollment projections rather than growth in adult population.	E-131
48. Partnership for Excellence Program. The California Community Colleges (CCC) are on target with establishing the accountability measures and adoption of goals for the new Partnership for Excellence Program. We recommend approval of the Governor's budget bill language ask-	E-133

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ing the Chancellor to consider recommendations for enhancing program measures and goals.	
49. Partnership for Excellence Augmentation. Recommend deleting \$8.2 million because no justification is provided to support a general increase in the program.	E-136
50. Use Partnership for Excellence Funds to Support Transfer Proposal. Recommend deleting request for \$2.5 million for increased transfer activities because these activities directly relate to the goals of the Partnership for Excellence Program and should be funded within the program's \$100 million base funding.	E-136
51. High School Report Cards. Recommend deleting \$10.6 million requested for a Community College High School Report Card program because the likely benefits of the program do not justify its cost.	E-137
52. Teacher and Reading Development Partnerships. Recommend deleting \$10 million and related budget bill language because the proposal has not been adequately developed.	E-138
53. Middle College High School Program. Recommend deleting \$1.8 million and related budget bill language because there is no information on the effectiveness of this program. Also withhold recommendation on the base funding amount of \$660,000 pending additional information.	E-140
54. Economic Development Program. We recommend that the Legislature direct the CCC Chancellor to (1) end its current contract for an evaluation and follow-up work on the Economic Development Program and (2) expeditiously begin a new contract study in conjunction with other agencies. We further recommend that the Legislature extend the sunset date for this program by one year to June 30, 2000, to allow time for legislative consideration of the new study.	E-141

Student Aid Commission

55. Cal Grant T Program Should be Expanded. Increase General Fund support for the Cal Grant T program by \$2.5 million because the program successfully assists students in obtaining teacher training.	E-147
56. Financial Need Formulas Should Include Federal Tax Credits for Tuition. Adopt supplemental report language that directs financial aid officers in the community colleges, California State University, and the University of California, in consultation with the Student Aid Commission, to include the availability of federal tax credits in calculations of student financial need. Require the commission to report to the Legislature by August 31, 1999 on how the segments have responded to this directive.	E-149